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THE MODERN CASE FOR SOCIALISM

BY

A. W. HUMPHREY

AUTHOR OF

"A HISTORY OF LABOUR REPRESENTATION," "ROBERT APPLEGARTH: TRADE UNIONIST, EDUCATIONIST, REFORMER," "INTERNATIONAL SOCIALISM AND THE WAR"

LONDON

GEORGE ALLEN & UNWIN LTD.

MUSEUM STREET

First published in 1928

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Printed in Great Britain by
Unwin Brothers, Ltd., Woking

Capitalism . . . has fallen into discredit because it has never kept its promise for a single day, and in any case is obviously no policy for a gentleman. —GEORGE BERNARD SHAW, *Spectator*, October 17, 1925.

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PREFACE

My aim in this book is to present certain of the main elements of Socialism in the light of the existing economic situation, current political experience and recent Socialist discussion. It is in this sense that the book is intended to be an exposition of the modern case for Socialism. No attempt is made to develop Socialist doctrine. I have sought to expound the existing doctrine in a modern setting, and in my view there has never before been a time in which the facts of economics and politics placed that doctrine on so firm a basis.

The book does not claim to cover, even in outline, the whole of the Socialist case, important aspects of which it leaves untouched. I hope, however, in a future book, to deal with these phases of the subject, with the aim of presenting, in conjunction with the present volume, an all-round survey of Socialist philosophy.

The growth of Socialism as a political force has inevitably resulted in its literature becoming more and more concerned with special departments of the subject—the attitude of Socialism to particular problems and questions of Socialist tactics—and it appears to me, especially in face of the new conditions created by the war, that an attempt to restate the case for Socialism as a whole is not untimely. The only sure foundation for Socialism is a preponderating public opinion understanding and accepting the Socialist faith. This book is intended to be a contribution to the growth of such opinion. The work itself explains why, in the writer's view, the spread of Socialist belief is a crying need of our time.

Any literary merit of the book is in part due to my wife, for whose reading of both typescript and proofs I am grateful.

A. W. HUMPHREY.

Palmers Green, N.,
April, 1928.

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THE MODERN CASE FOR SOCIALISM

CHAPTER I

THE SOURCE OF WEALTH

In the system of Nature, mouths are united with hands and with intelligence; they and not capital are the agents of production; and according to her rule, however it may have been thwarted by the pretended wisdom of lawmakers, wherever there is a man there also are the means of creating or producing him subsistence.—THOMAS HODGSKIN, *Labour defended against the Claims of Capital*. 1825.

SOCIALISM is a system of society in which the means of life belong to the community as a whole, and are developed and operated by the community with the aim of promoting the general well-being. By "means of life" is meant natural resources, and all those things which are used to transform those resources into useful commodities and services. Socialism is thus based on a principle precisely opposite to that of Capitalism, under which the means of life belong to a small class and are used for the profit of that class, whatever benefit the community, or any part of it, may receive being essentially incidental to the process and not the object of it. Indeed, as we shall see, the operations of Capitalism, so far from being necessarily beneficial to the community, often have been, and often are now, of a nature positively harmful.

The root contention of Socialism is this: that the resources of Nature are so vast as to be capable of amply supplying the needs of all, and that it is well within the capacity of mankind to exploit those resources and distribute their products in such a way that poverty—or anything approaching what we now understand by poverty—would disappear. Further, the production of wealth would be so increased, and the organization of production be so improved, that most of life would not, as now, be occupied

with anxious striving to satisfy physical needs. Instead of this condition of things, mankind would have time and scope for cultural development far in advance of anything we now know, when, indeed, the opportunities of the mass of the population for enjoying the higher things of life are negligible or non-existent. It is the starving of the mind and the cramping of the spirit, no less than the deprivation of the body, which is the subject of the Socialist protest.

The problem, then, being one of the production and distribution of wealth, we must first inquire as to what is the source from which all wealth springs. How does wealth accumulate?

Nature of Wealth

Wealth in the broadest sense may be said to consist of all those things which satisfy human wants, but, considered in relation to economic science, wealth consists only of those things which, while satisfying human wants, are limited in quantity; for unless they are limited they can have no economic value. Thus air, though extremely useful, is not wealth in the economic sense; it cannot be bought and sold; it is unlimited and no effort is required to obtain it. Industry is a round of production and exchange, of buying and selling, and the science which is concerned with industry—the science of economics—takes account only of things which, besides being useful, can assume the character of commercially exchangeable commodities or services.

Such, then, is the nature of wealth, but how does wealth arise? How is value added to value so that the wealth of nations steadily accumulates?

Factors in Production

In the production of commodities there are three factors. These are (1) raw material, (2) tools and machinery, and (3) labour. Let us suppose that there is some leather in a factory. It is worth, say, five shillings. There is also some boot-making machinery. Both the leather and the machinery might stay there for eternity and their value would not be increased one jot. As a matter of fact their value would lessen by deterioration. But the labour of a human being transforms the leather into a pair of

boots which are worth not five but, say, ten shillings. The added value has come, and can only have come, from the labour.

To this view the objection is raised that without the machinery and the raw material—called the capital—the worker would have been powerless to produce the boots. This objection is invalid because it overlooks four vital considerations: first, that the machine and the raw material were themselves, in turn, similarly the product of labour, and so also were the tools with which *they* were produced, and so on right back to the time when primitive man made the first tools by sharpening stones, the raw material secured by his own toil; second, that the machine is constantly cared for by labour, and by oiling and repairing has its life constantly renewed and without which it would, for all practical purposes, quickly perish; third, that although the machine assists production, and by wear and tear transfers some of its value to the boots, it remains true that without the active agency of labour it is useless; (4) that the value of the raw material and that part of the machinery which passes to the boots is merely *transferred*, it does not represent any *addition* to value, the addition being due to the *creative* factor of labour.

Wealth not created by Exchange

This view that all wealth is the product of labour is confirmed if we consider value in relation to exchange. In the world of industry activity is divided into two main divisions—production and exchange. Can wealth be created by the act of exchange?

In the language of everyday life we say that So-and-so "made" so much by selling certain goods. He may have done; but did what he "made" arise out of the act of exchange? Now obviously, if the goods were worth what was paid for them, no more and no less, the total amount of wealth existing after the exchange would be precisely that existing before it. The buyer would have secured the goods and the seller, say, a pound, but there would remain only two pounds' worth of wealth in the world, as before. Now suppose that, although the goods were worth only a pound, the seller received twenty-five shillings for them. Would the position be any different? The seller, from his own personal point of view would have "made" five shillings, but as the

wealth of the buyer would have been reduced by the value of five shillings, the total of wealth in the community would still be the same as before. It is thus clear that, although sometimes the seller and sometimes the buyer may have the advantage in exchange, the mere act of exchange does not create value, and however busy a community might be exchanging goods, that alone would not add one farthing's worth to their wealth. "Whatever material gain follows exchange, for every *plus* there is a precisely equal *minus*."[1]

Wealth not being produced in the market in the process of exchange, it must, therefore, be created in the other sphere of industrial activity—the productive process in the workshop—and labour being, as we have seen, the only creative agent in that process, it follows that labour is the source of all value.

But this question now arises: if nothing is added to wealth by the process of buying and selling, how is profit made; how do traders live; how does the wealth of the capitalist class come into being? It will be shown in the following chapter that the profit has been created—brought into being—at the point of production, in the workshop, the mine, the mill, or other centre of work. All that the act of exchange does is to enable the capitalist to *realize* his profit in terms of money.[2]

Objections to the Theory

Meanwhile, two of the commonest objections to this labour theory of value must be disposed of. One is that land has value, but is not the product of labour. Land, however, has value under only two conditions; either it is cultivated and therefore the value arises from the labour of the cultivator, or it acquires value by reason of the fact that labour carried on in its vicinity creates a demand for it. In other words, land has value only in so far as it is associated with actual or potential labour. The case of land, therefore, confirms rather than disproves the labour theory of value.

[1] Ruskin, *Unto This Last*, George Allen & Unwin, ed. 1907, p. 131.

[2] The explanation of the source of wealth here given (and of profit in the next chapter) is, in barest outline, that known as the Marxian Theory of Value and Surplus Value. Marx worked out the theory in massive detail in vol. i of *Capital*, 1867. An excellent summary of it is Marx's *Value, Price and Profit*, published posthumously in 1899.

The other and more frequent objection is that certain things have a value out of all proportion to the labour known to be embodied in them; for example, a violin by Stradivari or a manuscript of Chaucer's. But these exceptional cases do not invalidate the theory. In the first place, they *are* exceptions—accidental phenomena such as can be found in connection with many of the laws of science, but which do not upset the general truth of those laws.[3] The industrial problem of to-day is concerned with boots, bread, beef, coal, shipping, electricity, the vast and varied world of production and commerce, in which a deal in some rare work at a fancy price is but as a grain of sand in the desert. If the theory that all wealth is produced by labour is a sound working rule for all those things which go to make up production taken as a whole, then we could, in fact, afford to ignore peculiar exceptions. "Sir," said Dr. Johnson, "when I say that there are no cherries on that tree I do not want some blockhead to inform me that there are two."

Error of confusing Price with Value

The argument that the case of the rare work of art disproves the labour theory of value can, however, be met on purely theoretical grounds. The argument is based on a confusion between price and value. Scarcity can raise price, but it cannot increase value. If it could do so, then the way for a people to become wealthy would be, not to create abundance but to ensure scarcity—scarcity of food, of clothes, of houses—scarcity of everything. Such a proposition is seen at once to be absurd, but it is no more so than the argument that because a picture originally valued at £100 at length sells for £100,000 labour cannot be the source of value.

Objection has been taken to the labour theory of value on the further ground that it implies that the lazy or inefficient man who took the most time over his work would, therefore, produce

[3] "Only a moiety of science is exact science. . . . In Geology, in Biology, in Psychology most of the previsions are qualitative only; and where they are quantitative their quantitativeness, never quite definite, is mostly very indefinite. Nevertheless, we unhesitatingly class these previsions as science. It is thus with Sociology. The phenomena it presents, involved in a higher degree than all others, are less than all others capable of precise treatment."—Herbert Spencer, *The Study of Sociology*, chap. ii, p. 45, ed. 1904.

something of greater worth than the man who worked quickly and efficiently because, measured by time, he would put more labour into his product. But by labour in this connection is meant labour which is necessary at any given period of economic development. An illustration of Marx's which makes this point quite clear is that of the position of the hand-loom weaver when the power-loom was coming into use. He writes:—[4]

> When, in England, the power-loom came to compete with the hand-loom, only half the former time of labour was wanted to convert a given amount of yarn into a yard of cotton or cloth. The poor hand-loom weaver now worked seventeen or eighteen hours daily instead of the nine or ten hours he worked before. Still, the product of twenty hours of his labour represented now only ten social hours of labour, or ten hours of labour socially necessary for the conversion of a certain amount of yarn into textile stuffs. His product of twenty hours had, therefore, no more value than his former product of ten hours.

Meaning of "Labour"

It may here be pointed out that the term "labour" must not be understood as meaning manual labour only, and in the narrowest interpretation of the term. The draughtsman in his office, the chemist in his laboratory, the supervisor doing the necessary work of organization, all these and all others contributing usefully to production are covered by the term as well as the craftsman and the labourer. Nor is it argued that only the workers engaged directly on the job create the wealth which follows the application of their labour to the raw material of their trade. Directly and indirectly, in the same factory and outside it, other workers play their part; but whoever they are and wherever they may be it is human toil alone which brings new wealth into the world. Passive possession achieves nothing.

Everyone lives by labour; there is no other way of living. The social and economic problem arises from the fact that while the many live by their own labour and have little, the few who live on the labour of others have much. The title to enjoy lies with those who create, providing there is the capacity and opportunity to labour. The moral law is rooted in the economic truth that labour is the source of all wealth.

[4] *Value, Price and Profit*, p. 48 (George Allen & Unwin, Ltd.).

CHAPTER II

THE DIVISION OF WEALTH

The results of the Industrial Revolution and the growth of the Capitalist System have been to give us a Democracy—to the extent of 80 or 90 per cent. of the entire population—of "hired men" serving a privileged class of something like 10 per cent., in whom nine-tenths of the wealth of the community has been vested.—SIDNEY AND BEATRICE WEBB, *A Constitution for the Socialist Commonwealth of Great Britain*, 1920, p. 80.

The proletarian alienates a part of his activity, that is, a part of his being, for the profit of another class. The rights of man are incomplete and mutilated in him.—JEAN JAURÈS, *Studies in Socialism*, 1903, chap. i.

A man is not now dragged into a market to be bought and sold, he walks into the market and sells himself.—J. RAMSAY MACDONALD, *Socialism*, 1907, p. 11.

THE preceding chapter showed that labour is the source of all wealth. It revealed also that exchange—the process of buying and selling—creates no wealth. All wealth arises in the factory, mine or mill, on the land or at other centres where productive processes are carried on. We know, however, that the capitalist sells goods at a profit. If, therefore, this profit is not created by sales in the market-place, whence does it arise? To answer this question it is necessary to consider how the wealth created by the worker is divided.

The first thing that strikes one about any commodity that has just been produced is that neither the whole nor any part of it belongs to those who laboured for its production. The commodity in which so much value has been embodied by labour is the property of the capitalist who employed the workers. How does he dispose of it?

LABOUR CREATES MORE THAN IT RECEIVES. WHY?

Now the capitalist is bound to give some of the newly created value to the worker, for otherwise the worker would be unable to exist and bring up children, and with their perishing would be an end of all profit and all production. The worker, therefore, receives a portion—called wages—and the rest remains in the hands of the owning capitalist, who may have to hand some of it

to a landowner as rent. Our first point, then, is that the worker creates more wealth than he receives back in wages. Why does he consent to do this?

The explanation is that the capitalist owns the tools and machines which, under modern conditions, are necessary for the production of any wealth whatever, and the landowning class monopolizes the land. Only by the permission of the capitalist can the worker produce any of the necessaries of his own existence, for in so far as it would be possible for him, if he possessed a few simple tools, to scrape a living from the land, the opportunity is denied him. He has no land on which to work. In this dilemma he is bound to go to the capitalist and ask to be allowed to work, and he is compelled to accept work on such conditions as the capitalist is prepared to lay down, subject only to such concessions as he can extort by trade-union organization. To the worker, the getting of a job is always an urgent matter; it is often, in the case of casual workers, for example, literally the next meal which is at stake, but the capitalist can usually afford to wait and in the last resort, if he is not satisfied with the terms on which the worker will consent to be employed, denies him the right to work at all. So far as he, the capitalist, is concerned, the worker can starve.

With this power of life and death in his hands—for it is nothing less—the capitalist is able to compel the worker to toil longer than is necessary to produce sufficient for the worker's own subsistence, and to keep for himself all the value produced in the time beyond what is necessary for the worker to labour to sustain his own life.

How Profit arises

Thus, supposing the working day to be of eight hours, the worker may produce the value which he receives back in wages in, say, three hours, and the results of his work during the remaining five hours are annexed by the capitalist. The value created in this five hours is the surplus value, or profit, which the worker is compelled to leave in the possession of the capitalist.

The statement of the previous chapter, that profit is made at the point of production and not in the market, will now be doubly clear. If the raw material and the wear and tear of

machinery in the making of a pair of boots be represented by five shillings, and the finished product be worth ten shillings, the value embodied by the worker's labour in the making of the boots would be five shillings. But if he receives only two shillings as wages there is a profit, or surplus value, of three shillings. To realize this profit, therefore, the capitalist has only to go into the market and sell the boots at their true value—ten shillings. He realizes three shillings profit by the transaction, but this was *created* in the boot factory, not by selling the boots in the market above their true value. Of the ten shillings paid for the boots, five (normally, and assuming the continuance of production) go to replace raw material and wear and tear of machinery, two are paid in wages, and three taken by the capitalist as profit, of which a portion goes in rent unless the capitalist is also a landowner.

Having seen how the wealth labour creates is divided into wages and profit, the next question is: By what circumstances is the amount of the worker's wages determined?

How Wages are determined: the "Iron Law"

We have already noted that the capitalist is bound to give the worker a sum sufficient to meet the cost of his subsistence and that of rearing a family, for otherwise production could not go on, and it is to such a sum, an amount adequate for life, but leaving no surplus, that wages always tend to fall. As a matter of fact they are never far above it. This tendency is known as the Iron Law of Wages and, properly interpreted, it is as valid to-day as when Ferdinand Lassalle (1825–64) gave it a prominent place in his statement of Socialism.

When it is said that under Capitalism wages must always be at about the subsistence level, by "subsistence" is meant subsistence according to the conventional standards of a given period. Conventional standards must be understood as distinct from purely physical standards. They embrace things which, while not absolutely necessary in the physical sense, have by custom and gradually advancing notions of health and decency come generally to be regarded as necessaries. Thus, while the worker and his family could exist and carry on production with a

home consisting of one room—as, indeed, many of them unhappily have to do—one room is now so generally held to be insufficient that wages are not determined by the assumption that one room is the normal accommodation of the wage-earner. Similarly, many of the more elementary comforts and amenities of life have come to be recognized as within a minimum standard of subsistence. No employer, for example, would argue in a wage dispute nowadays (at any rate, not openly) that because the worker paid to a funeral club or had some ornaments on the mantelpiece that, therefore, he could stand a reduction of wages.

Whether a person is above the subsistence level can be rationally judged *only in relation to the level which is possible in a given state of society and which certain classes in that society enjoy.* Lassalle makes it clear that it is from this standpoint that the "Iron Law" must be regarded. He states:—

> All that human beings suffer and miss depends, therefore, on the relation between the means of satisfactions and the customary necessaries of life already recognized at the time. . . . If, therefore, it were ever so certain that the level of the necessary conditions for existence had risen in different ages, that satisfactions formerly unknown had been recognized by custom as necessaries, and that with them had intervened in consequence privations and sufferings formerly unknown, yet your [the wage-earners'] position as men has in these different ages always remained the same—oscillating on the lowest margin of what custom at any time demands as necessary for existence, now going a little beyond it, now receding a little below it. Your position as men has remained the same, for it is measured not by its relation to that of beasts in primeval forests, or that of African negroes, or that of serfs in the Middle Ages, or of workers 200 or 80 years ago, but solely by its relation to that of your fellow-men, to that of the other contemporary classes.[1]

Factors which modify the "Iron Law"

In so far as the workers are not on the subsistence level, their improved position is due to organization and legislation which *run counter to the principle of Capitalism*, and act as a check on the working of the economic forces of Capitalism.[2] Trade

[1] Quoted from *Modern Socialism*, edited by R. C. K. Ensor, 1910, p. 43.

[2] See *The History of Socialism*, by Thomas Kirkup (1913 edition, revised by Edward R. Pease): "We may fairly contend that considerations which have been urged as destructive of Lassalle's argument are really symptoms of the decline of Capitalism. The Iron Law is an inevitable result of the historical conditions contemplated by Lassalle," p. 106.

Unionism, health legislation, public libraries, and other amenities provided by public authorities (and which are an application of the *Socialist* principle) are examples. If the worker does not feel the full rigour of the "Iron Law" to-day it is only because, through industrial and political organization and agitation, he has set up defences against Capitalism, and to some extent forced the application of the Socialist principle in substitution for the Capitalist principle. If he ceases to do that, or if, under heavy defeat, the working class is deprived of some of the defences it has built up, then the Iron Law immediately becomes more oppressive and the worker is thrust down nearer to a purely physical subsistence level.

Good Wages not dependent on Good Profits

The less the workers can live on, the less they will get. Thus in a country where but little food and clothing is needed to sustain life, where the staple food grows in abundance, and where convention has added little or nothing to the bare physical needs of subsistence, the workers employed under capitalist conditions receive but the merest pittance, although they are nominally free and the profits of their employers reveal that their labour creates much value. Their physical and conventional needs being small, the capitalist is compelled to pay them but the smallest wages, and thus retains for himself a larger share of the surplus value than would be the case if the worker's needs were greater. Indian cotton mills pay larger dividends as a whole than Lancashire cotton mills, but because the Indian workers can keep alive and work on much less than the Lancashire workers, and have but feeble trade-union and legislative protection, the Iron Law drives down their wages accordingly.

Indian Jute and Cotton Wages

The jute mills of India make enormous profits for their owners. In the ten years 1915 to 1924 the gain to the shareholders reached the total of £300,000,000 or 90 per cent. per annum on the capital, yet the average wage to-day (1926) is £12 10s. per head *per annum*. There are from 300,000 to 327,000 workers

engaged in these jute mills, so a profit of £300,000,000 in ten years means that, on the average, £100 a year is made out of every individual worker—eight times as much as the worker is paid. The annual dividend of the best-paying mills is nearly always over 100 per cent., often over 200 per cent. and sometimes over 330 per cent. Fort Gloster Mill for the five years 1920 to 1924 paid 200 per cent., 62½ per cent., 120 per cent. twice, and 165 per cent. Kinnison Mill for the same years paid 400 per cent., 135 per cent., 160 per cent., 120 per cent., and 160 per cent.[3] Clearly, if wages depended on the amount of profit which the capitalist has at his disposal, these jute workers of India should be among the best-paid workers in the world, but the Iron Law, unchecked by Trade Unionism and social legislation, enables their exploiters to take advantage of the little on which they can exist and retain their labour for the barest pittance.

The same applies to the prosperous cotton mills of Bombay in which, in 1921, the average weekly wages of men were 10s. 3½d., of women 5s. 1d., and of lads and children 5s. 3½d.[4]

It applies also to British concerns in Shanghai. In August 1925 the Consul General at Shanghai, on information received from the firms themselves, reported that in mills and factories owned and managed by British subjects wages averaged "between 22 cents and 40 cents a day (say 6d. and 11d. respectively), and this for work on night and day shifts, varying in length from eleven and three-quarters to thirteen and three-quarters hours.[5]

Tin and Rubber Wages in Malaya

It applies again in the tin-mining and rubber industries of Malaya.[6] In tin mining, half of which is under the control of British Companies, wages normally range from 1s. 2d. to 1s. 5d. per day, though in 1922 they were as low as 8½d. per day. Is this because the industry is unprofitable? No: the reason is that

[3] *Exploitation in India*, by Thomas Johnston, M.P., and John F. Sime, 1926. Report of the Deputation sent to India by the Joint Committee of the Dundee Jute Trade Unions. Pp. 19.

[4] *Report of Labour Office of Bombay Government.* Quoted by H. N. Brailsford, *Socialism for To-day*, 1925, p. 53.

[5] *China No.* 2 (1927) *Memorandum on Labour Conditions in China* (Foreign Office). Pp. 15–17.

[6] I am here indebted to that wholly admirable little study *British Imperialism in Malaya*, prepared by the Labour Research Department. 1926.

Chinese and Indian labour has been imported in the interests of the growing British industry and a landless and propertyless working class—economically helpless—has been created. Sometimes these workers are "forced down by the management to a desperately low level of existence, living in huts made of old tins and eating a few handfuls of rice." At best 1s. 5d. a day; at worst 8d. a day. Take the wages of 1s. 2d. a day and see what it means to the tin-mining capitalists. Ten out of the eighty tin-mining companies, with an aggregate capital in round figures of £2,650,000 in 1924, represented one-fifth of the total output, and they made an aggregate profit of nearly £700,000. The dividends of these companies for the year 1923–4 or 1924–5, or the full year 1924 or 1925, were in every case but two 20 per cent. or over, and in one case 30 per cent. Obviously we have here more evidence that wages have no necessary relation to the profitableness of labour. The case of the Malaya tin mines also shows that cheap labour does not necessarily mean cheap goods for the consumer. In 1875 tin was £90 per ton, but in 1925 it was £262 per ton.

The rubber industry of Malaya tells the same story. The production in 1925 was 262,000,000 lbs. The labour engaged numbered in round figures 180,000 workers, which gives an average output per head of 1,456 lbs. of rubber. The average all-in cost of production was 9d. to 10d. per pound, which, with an export price of 2s. 3d. per pound, meant an average profit of 1s. 5d. to 1s. 6d. per pound. At one shilling a day a worker would earn £15 per year, if employed on 300 days, and this with housing and food, worth perhaps £10, would make his total remuneration £25. There would thus be a profit for the capitalist on every worker of roughly £109 per annum. Put another way, of every eight hours the worker toiled, one and a half were for himself, and six and a half for the capitalist.

British Examples: Case of Seamen

Illustrations need not, I think, be further multiplied, and in any case they can be found much nearer home. It is well known that in towns where rent and other items of living costs are

highest wages are highest, and where they are lowest wages are lowest, and many applicants for situations of various kinds have had the experience of being told, when offered a certain wage or salary, that "you'll find living cheaper here than at so-and-so." This, again, is the Iron Law of Wages at work. Or take particular industries. Large profits often go with low wages. One of the most profitable industries is that of shipping, but because seamen, owing to the nature of their calling, are difficult to organize and therefore have never had a strong trade union their wages have always been low—especially considering the risks they run—their hours long and the food and accommodation provided on board ship often, to put it mildly, very far short of what it ought to be. Here is the Iron Law unchecked by Trade Unionism pressing the seamen on to the subsistence level. If wages depended on the amount of value created by labour we should expect seamen's wages to be among the highest. Of the 120 millionaires whose wills were proved in this country prior to 1912, six were shipowners: James J. Bibby, who left £1,776,432; Sir Donald Currie, who left £2,377,052; Lord Inverclyde, of the Cunard, £1,038,369; Thomas Henry Ismay, of the White Star, £1,335,255; Walter Savill, £1,620,101; and James Mark Wood, £1,043,734. Or take the drapery trade. The shop assistants and other employees associated with it have, as a whole, been poorly paid. Is this because their labour produced little value? On the contrary, it is often very profitable. The 120 millionaires referred to included Sir F. Cook, draper, St. Paul's Churchyard, who left £1,600,000; Wyndham Francis Cook, St. Paul's Churchyard, who left £1,203,809; William D. Cruddas, draper, Hexham, £1,041,320; Peter Robinson, draper, £1,119,661, and William Whiteley, "universal provider," £1,452,825.[7] Shop assistants and warehouse workers, however, formerly had but feeble barriers against the operation of the Iron Law, and thus lived on, or perilously near, the subsistence level. A more up-to-date instance is provided by the artificial silk industry, in which large profits are made, but where the operatives, who have but little organization, are, on the whole, poorly

[7] *Reynolds's Newspaper*, June 9, 1912. The reader may recall more recent instances—the late Sir Robert Houston, shipowner, for example, left estate estimated at £6,000,000.

paid. In some Lancashire factories women work for about a pound a week and men for 1s. 3½d. per hour.

Wage-earners unable to accumulate: Evidence of Estate Duties

Convincing proof that the worker receives only his subsistence out of all the value he creates is to be found in the fact that the wage-earners as a class leave nothing, or next to nothing, when they die. Those of them who are best paid, or who have the smaller families (or even, if you will, are the more thrifty), may accumulate something from week to week or year to year, but this more often than not is exhausted during unemployment, sickness, or some other domestic catastrophe. Over his life as a whole the wage-earner, as a rule, can save nothing whatever. He goes out of the world with as little as when he entered it.

Records of the Inland Revenue Commissioners provide the proof. In this country all estates of a net capital value of £100 and over are at death of the owners liable to Estate Duty. In the year 1922–3 the number of estates in Great Britain so liable was 98,902.[8] In the year 1922 deaths in Great Britain numbered 559,685.[9] Thus of nearly every six persons who died—the actual figure is 5·65—only one left estate worth £100 or over.

But the position is even worse than thus represented, for of those who did leave estates a small fraction left the great bulk of the property. The total net capital value of all estates assessed for estate duty in 1922–3 was £431,197,524. This was the amount left in the aggregate by 98,902 people. But of this sum only £10,820,709 was left by 40,113 people, not one of whom left estate of over £500. Thus, even of those who had anything to leave, more than 40 per cent. left not more than £500—many of them much less. There were 64,164 people—more than two-thirds of the whole—who left not more than £1,000, these including, of course, the 40,000 odd whose estates did not exceed £500. This group, totalling 64,164, left

[8] *Report of the Commissioners of Inland Revenue*, 1922–3. Later reports reveal a similar position.

[9] In the case of revenue the year 1922–3 is, of course, the Government financial year ending April 5th, and in the case of the deaths the year ending December 31, 1922, but this slight discrepancy does not affect the validity of the comparison.

in the aggregate only £27,366,205 of the total of £431,197,524. At the other end of the scale, *fifteen* estates which individually exceeded £1,000,000 totalled £37,343,259, or *more than was left by the* 64,000 *people* who together accounted for £27,000,000.

But for the purpose of our argument stress is laid on the fact that four and a half people out of every five and a half (that is, nine out of every eleven) leave nothing at death worth mentioning. These are the masses, the working class, the victims of the Iron Law of Wages. Their position, round about the subsistence level, means, in reality, that they receive no payment, properly so called, for their labour. It has been justly observed:—[10]

> The purchaser who pays the worker just sufficient to make him fit for further work afterwards as before has only begun to pay the worker's expenses; he has not yet begun to pay him for his work. The worker in such a case is precisely in the position of a capitalist who has lent money and got it back, but has made no profit on its use.

The workers who die every day, leaving behind them nothing but a little furniture—in many cases it could almost be put on a donkey cart—and the money in the funeral club, have hired out their labour all their lives and "made no profit on its use." The most important fact about the people of these islands, the heart of the British Empire, is that the great majority of them live from hand to mouth.

Conclusions: Wages and Cost of Production

From the foregoing examination of the way in which the wealth created by labour is divided into wages and profit two important conclusions follow. The first relates more especially to the day-to-day struggle of the workers, and is that an increase in wages is not, as we are often told, an increase in the cost of production. A rise in wages is, in fact, merely *an alteration of the division of the product of labour*. If, as before, we put the new value created by labour in the making of a pair of boots at five shillings, the worker may take two shillings and the capitalist retain three. Now if wages were increased so that the worker received three shillings, only two shillings would be left to the capitalist, *but the cost of*

[10] Clementina Black, *Sweated Industry and the Minimum Wage*, 1907, p. 163.

production would remain precisely the same as before—five shillings of value created by labour, plus the value of the raw material and wear and tear of machinery. What makes it appear that the increase in wages has meant higher cost of production is that the capitalist is not content with the smaller profit and, if the condition of the market will enable him to do so, uses his strong strategic position to raise the price. There are limits to which the capitalist can do this, but it is done whenever possible, though clearly the cost of production has remained unaltered; not a single stroke more labour, not one additional scrap of raw material, not the least bit more wear and tear of machinery has gone to the making of the commodity concerned.

Limit to Concessions Capitalists can make

The second conclusion which follows from the fashion in which the product of labour is divided relates to the ultimate aim of the labour movement—if, indeed, that can be separated from its day-to-day struggles. This conclusion is, that there is a limit beyond which wages cannot rise without forcing the capitalist out of business. It may, for example, be reasonable to expect that labour should receive more than two shillings out of the five available for distribution—perhaps three shillings, possibly even more; but there must come a point at which the capitalist's share would be so reduced that it would not be worth his while to carry on, and, obviously, if labour absorbed the whole of the value it created, the capitalists would have no motive to continue in industry and would close down.[11] Unless, therefore, the workers are prepared to organize politically and industrially to supplant the capitalist system, they must be prepared to set a limit to their claims and to recognize that, taking Capitalism for granted, the capitalist may have a good case for refusing higher wages. It may at times be true that the capitalist

[11] The suggestion of the possibility of wages rising to anything approaching this level is no contradiction of the "Iron Law." Before they could so seriously encroach on the share of the capitalist one, or both, of two conditions would be necessary—Trade Unionism much more powerful than it is to-day and the breaking up of Capitalism in the particular industry, with consequent abnormal shrinkage of profit. These conditions would imply a serious modification of essentially capitalistic conditions under which alone it is contended that the "Iron Law" operates.

cannot pay more and keep in business even though existing wages be low. The wage-earners, therefore, must either recognize this fact and be prepared always to be the poorer and subject partner in industry, or they must make Socialism their aim and direct their political and trade-union activity to that end.

CHAPTER III

THE FACT OF THE CLASS STRUGGLE

Remember at this point, therefore, that anything more than bare subsistence which the workers make to-day they make by carrying on constant war with their masters.—WILLIAM MORRIS. 1886.[1]

FROM the manner in which wealth is divided under Capitalism, as demonstrated in the previous chapter, springs the Class Struggle.

We have seen that after the worker has received his wages, and after allowance has been made for the replacement of raw material, and the repair and renewal of plant, and all means of production, there remains a surplus—the surplus value or profit—which is annexed by the capitalist employer and of which the landowner may get a share. The tendency is always for the worker to receive only sufficient for his subsistence—enough to enable him to continue to labour and to rear the workers of the future. There is for him little or no margin for saving or culture, or any but the simplest and cheapest recreations. He leaves the world with as little as he brought into it.

INTERESTS OF CAPITAL AND LABOUR IRRECONCILABLE

Now, under pressure of the struggle to live, and as he sees how spacious are the lives of the well-to-do as compared with his own, and as the slow spread of education makes the worker increasingly dissatisfied with a wage which takes account only of his physical needs, as though he were a dumb beast of burden, and which gives him no scope for the exercise of his higher faculties—as all these factors come into play, the worker strives harder and harder for a larger share of the capitalist's profit. The capitalist, in possession, resists, and thus arises the struggle between the two classes.

[1] Lecturing in Scotland. Quoted in *Modern Socialism*, p. 23

"Economy of High Wages"

While the capitalist system of ownership and production prevails, the struggle is bound to go on. The interests of the two sides cannot be reconciled, for the more the capitalist gets the less must the worker get, and *vice versa*. The accuracy of this statement is qualified only by what is known as the "economy of high wages." This economy operates when by the raising of the wages production is so increased that there is, after all, a larger profit for the capitalist. This, however, does not, in reality, demonstrate that the interests of the wage-earner and the capitalist are reconciled. For if by increasing the worker's wages by, say, five per cent. the worker can be induced so to expand production as to increase the employer's profit by, say, 10 per cent., then the net result is that the worker has been exploited to a greater degree than before. His share has grown *proportionately* less, and the opposition of his interest to that of the capitalist has, therefore, been correspondingly sharpened. In so far as the worker understands the facts of the case his antagonism to Capitalism will become deeper and the Class Struggle, so far as he is concerned, will be intensified.

History a Process of Class Struggles

Whenever in a society one class has powers and privileges denied to another class there will inevitably be a struggle between the two. The broad movements of history are those of the struggle of classes for power. This country has seen the landed aristocracy subordinate the Monarchy and the Court to a Parliament. It has seen the rule of the landowners successfully challenged by the manufacturing and trading classes, which later rose to wealth and thereby acquired an influence in national affairs and forced from the aristocracy a share of political power. It is now seeing the wage-earning, propertyless class questioning the position of the dominant power of our time—the capitalist class. Although the capitalist class has already been compelled to admit the working class to a share of political power, it still retains a privileged position by reason of its ownership of the means of life, which enables it to force the worker

to labour for its profit. Both classes may use their political strength to improve their chances in the economic battle—the workers, for example, by securing trade-union laws giving them the right to combine and strike, the capitalists by Protectionist legislation passed for the purpose of increasing their wealth, or by such a measure as the Emergency Powers Act, which gives them a weapon to be used against such strikes as may appear seriously to menace the continuance of Capitalism. The Class Struggle is to-day carried on directly—as hitherto indirectly—for economic ends, and is bound to continue until such changes have been brought about as will make it impossible for one class to exploit another class.

Meaning of Trade Unionism and Organized Employers

The whole meaning of the Trade Union Movement and of the organization of employers—the latter culminating in the powerful and far-reaching Federation of British Industries and the National Confederation of Organized Employers—is that the interests of employers and employees, instead of being identical, are opposed. Each side has organized in order to press its claims with greater advantage. The first object of the Engineering Employers' Federation is "To protect and defend the interests of employers against combinations of workmen,"[2] and the purpose of the National Confederation of Organized Employers is to enable the capitalist class, so far as possible, to pursue a common policy in resisting the demands of trade unions for better wages and conditions and forcing on the workers reduced wages and worsened conditions. Reporting to the Trades Union Congress at Edinburgh in 1927, a committee of the General Council of the Congress which had had under consideration the question of the future of trade-union organization, declared that cases were known of certain employers having been willing to make concessions asked for by unions, but having been persuaded not to do so by pressure from the employers' National Confederation. No treatise on Socialism ever revealed the fact of the Class Struggle more plainly.

[2] *The Workers' Register of Capital and Labour* (Labour Research Department), 1923, p. 142.

The organization of employers and workers has been proceeding for more than a century and a half. Thousands of the working class, known and unknown, have faced all forms of persecution and suffering—eviction, starvation, transportation, the jail, and the gallows—in order that the right to organize in trade unions might triumph. The employers, on their part, have never been behindhand in joining forces to fight the unions. A century and a half ago Adam Smith noted that although combinations of employers were rarely heard of as compared with those of workmen, "whoever imagines, upon this account, that masters rarely combine is as ignorant of the world as of the subject. Masters are always and everywhere in a sort of tacit, but constant and uniform, combination, not to raise the wages of labour above their actual rate." [3]

For long now there has been a much more than "tacit" combination among employers, and in the face of the fact of these two great organized armies of Capital and Labour, constantly in conflict on the industrial field, to deny the existence of the Class Struggle is to remain oblivious to patent facts.

Class Struggle not a Creation of Socialists

The Class Struggle was not brought into being by the Socialist Movement. It arises inevitably from the economic nature of society. It proceeds whether or not its existence is recognized. Indeed, it by no means follows that because the interests of capitalists and wage-earners are opposed one to the other, and because Trade Unionism has a long history behind it, that the organized workers have all along consciously waged the Class Struggle in their efforts to improve their lot. It is only as the Socialist idea is accepted by the masses that they deliberately wage this struggle, and seek freedom from poverty and the other evils in which they are engulfed by working for the abolition of Capitalism so as to end the domination of the capitalist class.

Until the wage-earning class is thus awakened to the realities of its position it presses merely for a "fair day's work for a fair day's wage," blindly battling for a "reasonable" return for its

[3] *Wealth of Nations*, Bk. I, chap. viii, 1904 ed., p. 74.

labour, possessed of a hazy notion that, sometime and somehow, work will be fairly rewarded. In that stage the worker sees the problem, not as one of the economic reorganization of society, but rather as a fundamentally moral one—the greed of his employer or his lack of appreciation of the worker's point of view. The difficulty to him is to persuade the employer to be "fair." This was the attitude of most of the trade-union leaders who were foremost in the Labour Movement from the middle of the nineteenth century until the rise of Socialism in the eighteen-nineties. Thus George Howell, the first secretary of the Parliamentary Committee of the Trades Union Congress (now reorganized as the General Council), wrote that "trade unions deal with things as they are, not as they might be," and held that "to organize a crusade to promote vast social and industrial changes would involve an abnegation of their functions, possibly to the detriment of useful reforms, and certainly to the disadvantage of labour as now engaged and employed." [4] Howell and his school, memorable as were their services to the working class, never realized that Capitalism doomed the worker to poverty and prevented any reconciliation with the employing class. They never perceived that no solution was possible within existing economic arrangements. Howell declared that he was content to try to do something to create fair conditions for bargaining between workmen and employers, "so that the one shall have a fair day's wage for a fair day's labour, the other a fair day's work for a fair day's wage"; and he adds, "'Ah!' someone will exclaim, 'what is a fair day's wage and a fair day's work?' That, in sober truth, is a matter to be honourably adjusted between the two parties." [5] Obviously such a conclusion leaves the problem exactly where it was before.

The way out of this *impasse* is seen only as the Labour Movement comes to be guided by the philosophy of Socialism and carries on the Class Struggle consciously, appreciating the real nature of the conflict and seeking to end it in the only way in which it can be ended—by the abolition of Capitalism and the substitution of Socialism. The Trade Union Movement of this country is steadily approaching to this position. It was a land-

[4] *Trade Unionism New and Old*, 1891, p. 231.
[5] *Labour Legislation, Labour Movements, Labour Leaders*, 1902, p. 497.

mark when in 1925 the Trades Union Congress, assembled in its annual meeting at Scarborough, declared that the aim of the unions must be the "overthrow of Capitalism," and that organization must be developed with this purpose in view. Thus Socialism, through not originating the conflicts in which Trade Unionism has always been involved, seeks to direct those struggles to a definite end.

Factors which allay Class Struggles

Apart from the fact that at any given period the doctrine of Socialism may not have penetrated to any purpose the organized working class, other factors operate in the early stages of capitalist development to prevent the fundamentally conflicting interests of employers and employed becoming acute. The growth of an organized working-class movement, and especially the growth of Socialist opinion itself, is thus delayed. The Class Struggle can never become keen while the wage-earner has a good chance of rising into the ranks of the employing class. This he was often able to do in the days of small industry, when the age of steam and machinery was but in its infancy. The scale of businesses was such that comparatively little capital was required with which to start one; individual, personal control by the capitalist was the rule; with the development of overseas trade the market was rapidly expanding and the foreign competition this country had to face was negligible. There was then no enormous and continually accumulating surplus of wealth seeking investment. The "little man" had a good prospect of success. Those were the days when the employer had himself often been a workman. The common rise of "self-made" men gave colour to the contention that the social system provided equal opportunities for all, that hard work, thrift, and courage were the keys to prosperity, and that the bottom dog was where he was because of his failure to exercise these virtues. This teaching, pressed home by all the pastors and masters of the working class of the time, obtained such a hold that it passed as a sort of divine revelation long after it had ceased to possess such elements of truth as it once contained.

Expansion of the Class opposed to Capitalism

Nowadays, not only has the manual worker ceased to possess whatever opportunities he ever had of entering the ranks of the well-to-do, but the same fate has befallen the non-manual workers in the distributive side of industry and in the clerical, accounting and minor administrative section. Only a generation ago members of the shop-assistant class commonly became shopkeepers themselves, whereas to-day, with the growth of multiple shops—Liptons, Lyons, Boots, the Home and Colonial Stores, the Argentine Meat Company, to name a few—the chances of the shop assistant's becoming an employer grow more slender with every year that passes. We see this fact reflected in the formation and growth of the Shop Assistants' Union, which, through its affiliation to the Trades Union Congress and the Labour Party, is part of the organized working-class movement, the attitude of which becomes steadily more hostile to the established economic order. The vast clerical, accounting, and minor administrative class can never, in the mass, hope to be anything but servants of capitalist employers, and they increasingly realize that they are subject to the same forms of economic pressure as the docker, the factory worker, or the miner—that pay tends to fall in times of trade depression, that competition among the unemployed for jobs drags down the standard of the whole class, and so on. Thus, like the shop assistants these other "black-coats" turn more and more to Trade Unionism and association with the Labour Movement as their only hope of security and a decent livelihood. There is now a Federation of Technical, Professional, and Supervisory workers through which many of these "black-coat" associations are linked together, and many of them are affiliated with the Trades Union Congress and join the battalions of the manual workers in common efforts to improve the lot of all who live by the sale of their labour.

Thus a larger and larger section of the population is organized in opposition to the capitalist owning class, and is being relentlessly driven by the force of events to see Capitalism as the enemy. This adoption by the "black-coats" of Labour methods, and the increasing adherence of this class of worker to the Labour

programme, is the outward sign of the inward conviction that they cannot hope to achieve economic independence by the ordinary processes of "getting on," and that they see that their interests are not those of their employers. Thus is the Class Struggle sharpened and carried on upon a wider front.

Acuteness of Class Struggle To-day

The passing by the Baldwin Government in 1927 of the Trade Disputes and Trade Unions Act reflects the acute stage which the Class Struggle has reached in this country. The trade unions and the Labour Party are the means by which the workers defend their portion of the surplus value produced by their labour and strive to increase it, and with which they work for legislation which forms some protection against the hardships which Capitalism inflicts on the masses and which adds to the amenities of their lives. By the use of these weapons the workers have achieved so much, and threaten to achieve so much more, that the Baldwin Government, composed of members of the owning class, supported in the constituencies by the money of the owning class and backed by a Press run in the interests of the owning class, has deliberately, by the Trade Disputes and Trade Unions Act, blunted these weapons and made them more difficult to wield. At the same time it is toying with the idea of making such alterations in the constitution of the House of Lords as would in operation gravely hamper the work of a Labour Government, and ensure the rejection of any measure which threatened the status of the capitalist class or gave promise of a distribution of wealth appreciably more favourable to the mass of the people.[6]

[6] In the debate in the House of Lords on Viscount FitzAlan's motion for the reform of the Chamber the Duke of Northumberland frankly urged that a change should be made in order that the freedom of a Labour Government to pass such measures as it thought fit might be restricted. The Socialist Party he said (obviously meaning the Labour Party) "was composed of many factions mutually contradictory, whose only bond of union was a policy of destruction, or, as they termed it, the nationalization of the means of production, distribution, and exchange. It was probable that in the course of a few years they would be in a position to form a Government when it was likely they would have the help of the Liberal Party in carrying out their policy. If their lordships, in those circumstances, did nothing to strengthen the Second Chamber, the opinion the country would form of their public spirit and sense of duty would not be very high. . . . If their lordships lost this chance of reforming the House they were not likely to get another, not merely because of the danger of

In the face of such a situation, and in the light of the National Strike of 1926, when the wage-earning class, representing with their dependents a majority of the nation, stood solid for the miners, and the Baldwin Government organized the whole official machinery of the State to defeat the miners, the Prime Minister himself even going to the length of appealing personally to the American public not to feed the miners' children —in the face of these happenings to what purpose is it to deny the presence in society of the Class Struggle? Whether the miners or Mr. Baldwin, the Peers or the Labour Party, be right, is not for the moment the point. The point is that such events as these demonstrate how the capitalist system of production creates a cleavage of class interests.

The Mass doomed to inferior Status

In newly developed countries the growth of the Class Struggle may be retarded by the greater opportunities which they afford to the individual to improve his lot, a position arising largely out of the fact that land and other natural resources are not yet monopolized. "The capitalist class and the working class," wrote Jack London, the American Socialist writer, "have existed side by side and for a long time in the United States, but hitherto all the strong energetic members of the working class have been able to rise out of their class and become owners of capital. They were enabled to do this because an undeveloped country with an expanding market gave equal opportunities to all." But this phase has passed. Huge quantities of capital are seeking investment. London goes on:—[7]

> The gateway of opportunity has been closed and closed for all time. Rockefeller has shut the door on oil, the American Tobacco Company on tobacco, and Carnegie on steel. After Carnegie came Morgan and triple-locked the door. The doors will not open again and before them pause thousands of ambitious young men and read the placard "No Thoroughfare."

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a Socialist Administration, but because they were not likely to get the same terms from any other Conservative Government."—*The Times*, June 23, 1927. The Duke of Northumberland draws annually an immense sum in coal royalties. The nationalization of mines, and with it the abolition of royalties, is likely to be the object of one of the earliest of the first-class Bills of a Labour Government.

7 *War of the Classes*, English ed., 1920, p. 24.

A similar process goes on in every capitalist country. The "ambitious young men"—and women—instead of being absorbed in the class which profits by the capitalist system, find themselves fated to fill subject positions of doubtful security and, therefore, tend to become convinced that their interest lies in fundamental social change. The gulf between the rich and the poor widens. In relation to the possibilities of material well-being the lot of the working class grows meaner. The standard of comfort of the dominant class is further above that of the subject class than ever before. In the Middle Ages the condition of life of the landed nobility was nothing like so superior to that of the peasant as the food, housing, and clothing, and, above all, opportunities for enjoyment of the great landlords of to-day are superior to the standard of life of the modern rural worker with a wage of 30s. a week. Similarly, in the days before the factory system the lot of the journeyman was nothing like so far removed from that of his master as is the case with the workmen and the capitalists of our time. The apprentice in certain periods and in certain trades would live with his master and eat at the same table, but an apprentice in a Clyde shipyard or a Sheffield engineering shop to-day may not even know his employer by sight and, in any case, lives in a quite different social world. Compare the mansions of the magnates of modern industry with the small homes of the workmen—and in scores of thousands of cases not even a separate dwelling-house, but a tenement of one or two rooms. The products of the whole earth are available for the enjoyment of the industrial magnate, and science, industry and world commerce have surrounded him with comforts and conveniences undreamed of by his forbears; but the workers as a whole experience relatively little of these fruits of science, invention, and a vastly expanded commerce, their wives are hard put to it to spin out the money to cover bare necessaries without any regard to variety, and are often driven to seek the poorest quality of goods available. The food and clothing of the worker are quite alien to the employer. The wealth which capitalists leave behind to-day completely dwarfs what they left a century ago, but the present-day worker leaves just what his forerunners left—little or nothing, and usually nothing. In short, the owning class, capitalists and landowners, have

reaped the great bulk of the advantage accruing from what is usually described as progress—the enormous increase in the power to produce wealth which has taken place in the past hundred and fifty years.

Is Capital becoming more diffused?

Now, the defenders of Capitalism do not admit that the Class Struggle is becoming more acute. On the contrary, they say that capital is becoming more diffused, that the number of capitalists is increasing, and that consequently more and more people have an interest in maintaining the established order, and will act and vote accordingly. Therefore, runs the argument, the Socialist Movement is foredoomed to failure.

These apologists of Capitalism point to the development of the joint-stock company system, and contend that it results in the democratization of industry, inasmuch as, in their view, industrial undertakings are owned, not by a few great capitalists, but by an ever-increasing class of shareholders, many of whom are of only modest means. They point also to the savings in Building Societies, Co-operative Societies, the Post Office Savings Bank and the Trustee Savings Banks, and regard the holders of these deposits as so many small capitalists who may be relied upon to defend Capitalism to the last ditch.

Distribution of Capital

Of these supposed instances of the wide distribution of capital, these alleged examples of institutions which make for the perpetuation of Capitalism, we will take first the joint-stock companies.

Estate duty returns show that joint-stock securities form a very large proportion of the capital now held in this country. The returns for the year ending March 31, 1921, reveal that such securities, together with Government and municipal securities, represented 44·8 per cent. of the property left at death. Stock Exchange securities were the largest element in estates of more than £5,000. The return, says Mr. Henry Clay, Jevons Professor of Political Economy in the University of Manchester, "brings

out clearly two important facts, the inequality of distribution and the preponderance of Stock Exchange securities among the different forms of property."[8] Now, bearing this preponderance in mind, how is property distributed?

Professor Clay estimates that in the year 1920–1 there were 13,500,000 people possessed in the aggregate of £912,000,000, or an average holding of £68 each. A further 2,099,700 possessed £546,000,000, or an average holding of £260 each. A further 1,026,200 possessed £746,000,000, or an average of £727 each. These three groups of people, with property averaging in the respective groups from £68 each to £727 each, represented 93·91 *per cent. of those with any capital at all.* Who held the remainder? At the other end of the scale 41,180 people averaged £50,486 each, 7,100 people averaged £251,480, and a tiny group of 537 people averaged £1,247,672 each.[9]

Looked at in another way these statistics of Professor Clay's show that *fewer than* 1 *per cent. of the capitalists own just under* 40 *per cent. of the capital.*

This being the way in which capital is distributed, and as Stock Exchange and Government and municipal securities form 44·8 per cent. of all forms of property, as revealed by estate duties, what then becomes of the contention that the modern joint-stock system leads to a wide distribution of property? Apart from Stock Exchange and Government and municipal securities there is, of course, the capital of private joint-stock companies, but this is even less widely diffused than the capital of public companies, as under the Companies Acts membership of a private company exclusive of its employees is limited to fifty, the company is prohibited from inviting the public to subscribe to either its shares or debentures and the right to transfer shares is restricted. Clearly the argument that joint-stock Capitalism means a wide distribution of property has no foundation in fact.

Mr. Runciman, the Liberal politician and shipowner, is fond of telling the public that property is, in reality, very much more diffused than is generally believed to be the case, and that capital,

[8] *Property and Inheritance*, p. 4.

[9] E. D. Simon, *The Inheritance of Riches*, 1925, p. 10. Quoting Professor Clay's figures.

so far from being anything in the nature of a monopoly, is quite a common possession. In 1925 he pointed out that more than 15,000,000 people owned property worth in the aggregate more than £777,000,000. What of it? A fellow-Liberal of Mr. Runciman's, somewhat more candid, retorted that these 15,000,000 people owned on the average only £50 of capital which would give them an income of one shilling a week, whereas, as Professor Clay had shown, at the top of the ladder were 537 capitalists owning in the aggregate £670,000,000 or approximately £1,250,000 each, which would give them each a weekly income of £1,000, or *twenty thousand times more* than the average income of the petty "capitalists" whose numbers so impress Mr. Runciman.[10]

Decline of Personal Relationships in Industry

Even supposing that the joint-stock company system leads to a much wider diffusion of property than is actually the case, its principal influence would still be one which makes the Class Struggle more intense, for the rise of this form of industrial organization has meant the disappearance of all personal relationship between employers and employees. So long as the employer and his employees are personally known to one another there may be a real concern on each side for the other's difficulties. The normal employer would, for example, dislike having to dismiss men whom he knew personally, and of whose family circumstances he might be aware; he would likewise be reluctant to reduce wages. On the other hand, the men, in the case of an employer with whom they came into frequent contact, and whom they liked, might willingly make sacrifices if they knew he was in real difficulties. Such a relationship gives at least an opportunity for a conciliatory and co-operative spirit to be created. With the joint-stock company, however, and more especially as it grows larger and develops into various forms of the combine and the trust, all these personal, human influences are wiped out. The workmen do not, as a rule, know the directors and certainly not the stockholders, even by sight. When dismissals take place no one—certainly not the owners of the concern —has the unpleasant job of dispensing with human personalities—

[10] Simon, *op. cit.*, p. 11.

Smith, Brown, and Jones, all known to be good fellows. Instead the administrative machine serves out notices to so many "hands," influenced by nothing whatever but the state of the order books and the effect on the balance sheet at the end of the year. In these circumstances appeals to the men to co-operate in the "common task" of improving business, and to give up wages and work longer hours to serve that end, fall on deaf ears. The concern may have fallen on hard times, but the directors who make the appeal seem as prosperous as ever, and the shareholders are mere shadows in the background. In any case, if these particular shares are not so profitable, what other shares do the shareholders possess, and are the interests of the directors confined to the one concern?[11] In spite of a trade slump the luxurious cars still run, the big houses are still kept up, the social round goes on, the Riviera in the season is as full and gay as ever, and the picture papers still feature fashionable weddings at which the women wear finery which could not be bought with a year's wages of an artisan. If shareholders and directors make sacrifices the signs of it are not apparent; they are certainly not visible to the wage-earner.

A notable writer on ships and the sea, Mr. H. M. Tomlinson, has finely summed up how the growth of combines in the shipping world has led to the disappearance of the human relationship. "There was a time," he says, "when a ship's house-flag was a symbol of a personality as well as the trademark of a liner," and he goes on to ask:—[12]

> But what is ownership nowadays? Most ship-masters and chief engineers know nobody but superintending engineers, captains, and managers. They are vaguely aware of a great figure far in the background, altogether too important to notice so small a matter as a captain of a single vessel, for that august figure is concerned, not so much with men and a line, as with the aggregate tonnage of many lines, and labour supply.
>
> These great controllers rarely see their ships—perhaps only the latest spectacular liner, on the day when she is proudly displayed to a wondering world.
>
> They are concerned not so much with ships as with finance and the

[11] Mr. Evan Williams, President of the Mining Association, the organization of the coalowners, admitted before the Royal Commission on the Coal Industry, in January, 1925, that he was a director of eleven companies and chairman of four others. This is typical of the leaders of Big Business.

[12] *Daily News*, January 4, 1925.

control of trade routes. Not so much with men as with the powers to which men must submit. Personality is lost in delegated and diffused administration. Therefore you might as well expect men to feel an affection for the solar system as for a modern line of ships.

All the great industries might be written of in the same strain.

Failure of Co-partnership

The company and the combine, then, provide but the poorest soil for the spirit of class co-operation, and their influence is the reverse of allaying the Class Struggle. Further proof of this is to be found in the utter failure of the co-partnership movement to get any grip on the industrial system. For two generations many well-intentioned people have put their energies into furthering profit-sharing and co-partnership, and the movement has had the advantage of the support of influential people in all walks of life. Yet its achievements are very limited, and considered in relation to industry as a whole and the magnitude of the industrial problem, are entirely negligible.

Up to the end of 1923 profit-sharing and co-partnership schemes known to have been started numbered 484, but of these only 228 were then in existence. These schemes nominally covered 323,000 workers, but of this number "only approximately 160,000 appear to have participated in the benefits conferred by the schemes."[13] The average bonus per head of all the schemes was only £7 6s. for the year—less than three shillings per week. In the case of fifty-nine schemes there was no bonus at all, in eight the ratio of bonus to earnings was under 2 per cent., and in twenty-one of the schemes it was 2 per cent. and other amounts under 4 per cent. Only twice between 1913 and 1923 did the average rate of bonus exceed 6 per cent.—namely, 6·7 per cent. in 1914 and 6·4 per cent. in 1920. Such is the lean and limited record of co-partnership.

Why Co-partnership will not do

Not that co-partnership and profit-sharing are any substitute for Socialism. The system means, at best, that the employer and

[13] *Ministry of Labour Gazette*, September 1924, from which figures in this paragraph are taken.

his employees agree to co-operate to get the most out of the business for themselves by the usual method of screwing as much as possible out of the community at large. It does not take account of society as a whole and seek the general welfare, but is content that the community should remain an agglomeration of warring units. The rivalry between different firms run on co-partnership lines would perpetuate the evils of competition so far as competition existed, and, on the other hand, co-partnership is no barrier against the combine and the trust. Co-partnership involves no pooling of the nation's resources, of its knowledge and science, with the taking of long and wide views and the planning of industrial development with an eye to the general welfare. Co-partnership makes the profit of the individual undertaking the first and last consideration. The worker gets a share of the profit, and that is all the difference—and how little that share is we have seen. The co-partnership system cannot hope to be immune from the periodical slumps which are inseparable from the anarchic production of the capitalist system; and when they arrive the co-partnership worker may have to be turned off just like the employees of a concern run on the usual lines. In any case, the capitalist class, considered in relation to its numbers, would still receive the lion's share of the profits of production, and still retain effective control over the organization of the undertaking and the marketing of the goods. Its economic status remains superior to that of the wage-earners, whom it still exploits, and its standard of life continues to be far above that of its employees, whose social world is not that of the capitalists. The fundamental antagonism between Capital and Labour has not been eliminated, although a brake has been applied to check the impetus to conflict. It is not industrial democracy that co-partnership would establish, but a humane autocracy.

The "Small Capitalists" Bubble

The joint-stock company, then, having contributed nothing to the alleviation of the Class Struggle, not even when dressed up as profit-sharing and co-partnership, what of the Co-operative

societies and other sources of popular thrift? Is it to these we may look for the wide distribution of the ownership of capital?

In 1923 the shares held in distributive trading Co-operative societies totalled £75,843,647—impressive sum when given out from some Liberal or Tory platform. The membership of the Co-operative societies for the same period, however, was 4,531,647,[14] so the average shareholding per member was £17 8s. 7d. Of such are the Co-operative "capitalists." In the Post Office Savings Bank in England and Wales at the end of 1922 the amount due to depositors was £244,435,767—a very pretty figure when trumpeted forth as alleged evidence of the vast sums which the working class are able to accumulate out of their wages. But the "active" accounts[15] numbered no fewer than 10,650,504 and the average amount due to individual depositors was only £22 18s.,[16] which is obviously useless as a means of founding an industrial enterprise or achieving independence of the employing class. The Trustee Savings Banks reveal a similar state of affairs. In these banks in England at the end of 1922 the average sum due to individual depositors was £32 2s. 6d., the accounts totalling 1,420,705. For Wales and Scotland respectively the figures were 12,647 and £45 5s. 8d. and 716,405 and £39 11s. 10d.[17] As to building societies, it has to be remembered that their shareholders never embraced any but a very small proportion of the more prosperous section of the working class with an element also of the lower middle class. Even so the representation of the building society shareholder as a capitalist will not stand investigation. At the end of 1922 shares held in building societies totalled £80,430,092—which looks a lot—but the sum works out at £97 per member.[18] We thus see that the much-advertised savings of the workers are neither sufficient to give them security nor to enable them to go into business for themselves. They are useless as a means of exploiting labour for profit, and to describe these little accu-

[14] *Report of the Chief Registrar of Friendly Societies.*

[15] There were also 5,673,520 "dormant" accounts—that is, accounts with a balance of less than £1 which had been dormant five years and upwards.

[16] *Sixty-eighth Statistical Abstract for the United Kingdom.*

[17] *Ibid.*

[18] *Report of Chief Registrar of Friendly Societies.*

mulations as capital is, therefore, a misuse of language. The "small capitalists" bubble is easily pricked.[19]

The facts thus reveal that Capitalism neither leads to the wide distribution of capital nor encourages the growth of a spirit of conciliation and the practice of co-operation. The monopoly by one class of the means of life and the consequent subjection of the other class makes reconciliation impossible. Unless this be recognized and a policy shaped accordingly all the efforts of the workers to improve their position are but as the striving of men groping in darkness, for no account is being taken of the basic fact of the relation existing between employers and employed —opposition of interests and consequent class conflict.

Socialism would abolish the Class Struggle

Facing this fact of the Class Struggle, Socialism seeks to abolish it by removing its cause. For the monopoly of the means of life by a small fraction of the community it would substitute ownership and control by the whole of society in a manner which will be discussed in a later chapter. The whole community being in collective possession of the means of production, and these being operated by the community for the community, no class would be economically subject to another class. Indeed, the division of society into classes as now and hitherto would disappear, for such division is, and always has been, the outcome of economic and political privilege possessed by minorities.

The notion that Socialism seeks somehow to turn the tables on the capitalist class by transforming it into a wage-earning class, while the present wage-earners, or their successors, would rule the roast as capitalists, is not only grotesque considered as a sociological proposition, but is quite foreign to anything

[19] Since the above was written the following later figures have become available.—*Seventieth Statistical Abstract for the United Kingdom*, pp. 185, 187, 188.

Year 1925

Post Office Savings Bank	..	Due to depositors	£285,491,388
		Average each depositor ..	£22 18s. 3d.
Trustee Savings Banks	..	Due to depositors	£83,396,001
		Average each depositor ..	£35 16s. 3d.

The figures in each case relate to the United Kingdom and to the "active" accounts. The share capital of building societies in 1925 was £127,827,111 and the membership 1,133,281, an average of less than £120 per member.

Socialism intends. Under Socialism no class would be exploited for the simple and obvious reason that there would be no class left to exploit—no dominant class and subject class. There could be no economic subjection of one section of society by another section, because no one class would possess means by which such exploitation could be carried on. Already we have political democracy except in so far—and this is an important qualification—as it is nullified by the social and political influence which results from the wealth and the position of privilege occupied in the industrial world by the capitalist class, and with the establishing of industrial democracy through Socialism the truly democractic State would emerge. This idea of the abolition of classes cannot, I think, be better expressed than it was by Wilhelm Liebknecht at the Erfurt Congress of the German Social-Democratic Party in 1891:—[20]

> The Social-Democracy, while it fights the class-State, will, by abolishing the present form of production, abolish the class-war itself. When the means of production have passed into the community's possession, then the proletariat is no longer a class, any more than the bourgeoisie; the classes cease; there only remains society, the society of equals—genuine human society, humane equality.

It is this abolition of classes, and the welding of society into a co-operative whole, that Socialism seeks. Socialism preaches the Class Struggle not as an end in itself, but because to refuse to recognize the fact of its existence is to deny one of the most fundamental factors in the present relationships in capitalistic society, and therefore to make abortive all efforts for the release of the mass of the people from the scourge of poverty and the terror of insecurity. The Class Struggle is an evil thing, but none the less a fact to be faced. Socialism does not glorify it. Its driving force is not the desire for social war, but the craving for social peace.

[20] *Modern Socialism*, p. 10.

CHAPTER IV

SOME CLAIMS OF CAPITAL EXAMINED

Far from robbing anybody of surplus value Capital is like a benevolent ancestor who, instead of consuming all the port he could get—as some ancestors did—laid down an enormous cellar of it for the use of future generations. And everyone who is now alive in this country, and millions abroad likewise, are now able to help themselves to the grand old vintage then laid down and now ready for them, crusted, fruity, full of ripe flavour and rich bouquet.—HARTLEY WITHERS, *The Case for Capitalism*, 1920, p. 239.

The capitalist organization of industry has made a parasite of the capitalist.—PAUL LAFARGUE, *The Evolution of Property*, 1890, p. 171.

WE have now seen that in capitalistic society there is, and is bound to be, a struggle between the capitalist class and the working class over the division of the product of industry. In this chapter we shall consider some of the arguments by which the capitalist class seeks to justify its position.

But let it first be noted in passing that this conflict is not one of personal virtue on one side and personal wickedness on the other. Differing mentality and differing social habit are found as between one class and another, but the moral worth of men is on the average the same in all classes, and for the matter of that in all nations. Given the capitalist system, the capitalist is entitled to all he gets, for he is acting only in accordance with the rules of the game. The point at issue is whether the game as now played is the one by which the best use can be made of our economic opportunities, and, if not, what shall be the nature of the substitute. The capitalist claims to perform certain functions without which production as we now know it could not go on, and which are essential to any increase of wealth or industrial progress. He attempts to justify his gains not only on the merits of the services which he claims to render, but on the further ground that these gains must be conceded if capital is to function as a factor in industry.

The principal claims of Capital may be summed up thus:—

1. That the accumulation of capital, which alone makes industrial progress possible, is due to the abstinence of

the capitalist who, instead of consuming all in the present, saves on behalf of the future; and that the portion of the product which he retains is in part the reward of this abstinence.

2. That but for the foresight of the capitalist, who by his saving provides the means by which the worker lives while wealth is in process of production, industry could not be carried on.
3. That the productiveness of labour is due, not only to the capital itself, but to the skill exercised by the capitalist in organizing and managing capitalist enterprises.
4. That it is the capitalist who runs the principal risk of industry, and that this risk would never be undertaken but for exceptional reward.
5. That increased wealth is due also to invention, and that without the incentive provided by Capitalism invention would wither and die.
6. That industrial competition, which Socialism would abolish, is responsible for improving and cheapening production, and for lowering prices, and is the driving force of economic progress.

Factor of Inheritance

Now, take the first point: that Capital's share of the product is the reward of abstinence. Is it a fact that the capitalist abstains —that he saves wealth instead of spending it, putting the money into industry to assist the production of more wealth and in the meantime going without things he would like to have?—and the last clause is important, for the moral basis of this aspect of Capital's case is that the share of wealth taken is in part justified by previous *sacrifice*, without which, indeed, the claim based on abstinence would have no meaning.

The answer, in brief, is that once upon a time the capitalist did abstain, but that in modern days he does not; and it is in the modern days that we are living, and the facts of these days which should determine our beliefs and the policies of political parties and trade unions. Inheritance and the rise of a class living on

investments have put the matter on a entirely different footing. Professor L. T. Hobhouse has described inheritance as "the main determining factor in the social and economic structure of our time." [1] Dismissing as unsound the theory that inheritance is necessary in order to call forth the maximum of useful social effort he writes:—[2]

> The principle of the super-tax is based on the conception that when we come to incomes of some £5,000 we approach the limit of the industrial value of individuals. We are not likely to discourage any service of genuine social value by a rapidly increasing surtax on incomes above that amount. . . . If things should be so altered by taxation and economic reorganization that £5,000 became in practice the highest limit attainable, and remained attainable even for the ablest only by effort, there is no reason to doubt that that effort would be forthcoming.

Yet it is by inheritance that the modern capitalist class has largely come by its wealth, and if £5,000 a year were to be fixed as the maximum reward of the capitalist and landowning class, there would be a big surplus to lop off.

Rise of an Investing Class

Very different is the position of the magnates of industry to-day from that of the men who founded the powerful cotton, iron, and coal families more than a century ago. These forbears lived relatively plain and strenuous lives—they abstained from spending in order to build up their enterprises. Their descendants have been under no such necessity. They have come upon their living ready-made, and it has grown so bountiful that, far from the capitalist having now to abstain to put money into his business, he has a surplus which he can put into other people's businesses, from which he will draw still more wealth. Other capitalists, similarly placed, will, when he needs more capital, invest their money in his. So far has this process gone that there is to-day, as we have noted, a class which draws its income entirely from investments, and has only a stock-holding connection with any industrial undertaking. The wealth of this class—the Leisure Class—is planted in a great number of directions, and all the

[1] *Liberalism*, 1911, p. 197. [2] *Ibid.*, p. 201.

time a satisfactory average return on it is secured.[3] This is the typical modern capitalist class. Its mode of living itself contradicts the assertion that its wealth is due to self-denial. It denies itself nothing. It owns great houses—sometimes great estates—is surrounded by servants and every modern luxury, enjoys long and expensive holidays, sends its children to costly schools and Universities, and at death leaves them wealth with which to continue the prosperous round.[4]

Small Beginnings of Early Capitalists

In face of the large-scale production characteristic of our time, and the consequent large capital needed to start an industrial enterprise, "abstinence" cannot in itself pave the road to wealth and independence. By putting aside a shilling, or half a crown, or five shillings a week the ironworker cannot hope to found an ironworks, the shipyard worker to open a shipyard, the miner to buy a colliery, or the cotton operative to purchase a cotton mill. But in the early decades of the age of steam and machinery men of very moderate means, and even poor men, could with very small resources enter the employing class and rapidly make money by the exploitation of labour. The early ironmasters were mostly blacksmiths, locksmiths, makers of hay-rakes, ironmongers, and brass-workers. They were "men who had climbed from humble circumstances, often assisted by the liberal terms on which their leases were granted."[5] For the most part they rose "by dint of constant industry and unremitting thrift."[6] An example of the advantages these early capitalists had in the matter of leases is the case of Anthony Bacon, who at Merthyr in 1765 leased from the Marquis of Bute a strip of land eight miles long and five miles broad "for the purpose of digging coals and

[3] Mr. Hartley Withers, an opponent of Socialism, writes: "Nowadays, although a certain amount of capital is invested by its owners in businesses which they themselves control, the more usual channels in which capital is placed are investment in land and in securities of Governments and municipalities, or in joint-stock companies formed for carrying on some enterprise."—*The Case for Capitalism*, p. 64.

[4] Mr. Philip Kerr, lecturing at the Liberal Summer School in 1926, stated that much of the industrial property in this country was now in the hands of the third and fourth generations.—*Daily News*, July 27, 1926.

[5] T. S. Ashton, *Iron and Steel in the Industrial Revolution*, 1924, p. 209.

[6] *Ibid.*, p. 211.

erecting furnaces," and paid £100 a year for it. Eight years later the same land was leased for £20,000 a year. Another case is that of the company whose works were started by John Guest, founder of the family now famed for its iron and coal interests. In 1762 the company obtained land from Lady Windsor on a ninety-nine years' lease at an annual rental of £26.[7]

When new processes came to the pottery industry, and with them production on a larger scale, the masters were men of small means, and but little enterprise was needed to get into the new capitalist class with its increasing wealth and power. In the older form of the industry the master potters each had a single oven with six men and four boys. They made a weekly profit of ten shillings together with six shillings for their own labour. With the discovery of new processes "the more enterprising masters began to add oven to oven. Thus the factory system arrived."[8]

In the cotton industry the men who made fortunes quickly in the early days of the factory system, and in some instances founded concerns which are among the foremost in the industry to-day, started as poor men—sometimes operatives who had managed to acquire a single spinning mule for a beginning—and "step by step became in a few years, in numerous instances, the most extensive spinners and manufacturers in the trade."[9] Shopkeepers, and various classes of men "who had saved a few hundred pounds or had a legacy, started in the cotton business, and from such beginnings as these several manufacturers laid the foundation of great fortunes, and he who had once been the tenant of one or two rooms or a small mill rendered himself in a few years the proprietor, perhaps, not only of one mill, but of several extensive mills."[10] Among many instances given by James Butterworth, the historian of Oldham, is that of John Whittaker, who began in the cotton business with a small carding engine moved by horse-power, and as the owner of a small number of spinning machines in Duke Street, Oldham. A few years afterwards he owned cotton mills at Higher Hurst, near Ashton-under-Lyne, "and in less than forty years he became the opulent

[7] Ness Edwards, *The Industrial Revolution in South Wales*, 1924, p. 10.
[8] J. L. and B. Hammond, *The Rise of Modern Industry*, 1925, p. 168.
[9] James Butterworth, *History of Oldham* 1826, p. 128.
[10] *Ibid.*, p. 178.

possessor of an immense manufactory."[11] Messrs. Whittaker's, of Higher Hurst, is at this day one of the largest firms in the cotton trade, but of the hundreds of operatives whom it employs we are not likely to see one, however frugal and industrious, repeat the performance of the founder, John Whittaker, of Oldham. The origin of another of the largest firms in the cotton trade to-day—Messrs. McConnel & Co., Ltd.—was the partnership in 1791 of John Kennedy and James McConnel, who started in the cotton-spinning business with but £250 between them.[12] In the hatting industry, in which the factory system was growing up at the same time, there is the case of the Brothers Henshaw, of Oldham—men "marked for habits of industry and frugality" —who in 1780 established a hat factory on a capital said to amount to £2,000. When Henry Henshaw died in 1807 they had property worth £154,000.[13]

The "Getting-on" Illusion

No amount of thrift will to-day open similar opportunity to the operative spinner of Bolton or Oldham, the blacksmith of the Clyde or Tyne, or the brassworker of Birmingham. "Every man or woman of good health, good character, and common sense who exercises self-denial and practises the essential law of service to others can," wrote the late Lord Leverhulme, "become a capitalist."[14] Doubtless among the vast number of the employees of the Lever Combine there are men and women of this type, and who would like to become capitalists. Let any of them "practise self-denial," scrape together a few hundred pounds—if they can—and start making soap in competition with Lever's—and see what would happen. The probable sequel would be bankruptcy. In any case, such advice as Lord Leverhulme's, which is current coin in the philosophy of Capitalism, can obviously be useful only so long as relatively few people

[11] James Butterworth, *History of Oldham*, 1826, p. 154.

[12] G. W. Daniels, *The Early English Cotton Industry*, 1920, p. 165. Writing of the cotton capitalists of Manchester as they were in the eighteen-twenties, John Francis says they "founded families, built churches, sent law-givers to the Senate, mingled their blood with that of the aristocracy, and bequeathed princely fortunes to their sons."—*A History of the English Railway*, 1851, p. 75, vol. i.

[13] Butterworth, *op. cit.*, p. 154.

[14] *Reconstruction after War*, 1919, 32 pp.

carry it out, or, at any rate, succeed as a consequence. As any guide to the intricacies of the social problem it is useless—mere intellectual lumber. Even supposing that "character, common sense, and self-denial" are the secrets of fortune-making, this can be so only so long as such qualities are very restricted in quantity. One cannot conquer in the commercial field any more than in the military field unless there is someone to be conquered. To be a successful architect of a capitalist fortune it is necessary that a vast number of other folk shall *not* meet with the same success, but shall carry on as subordinates right down to the least skilled and worst paid, but still necessary, worker. That is why the gospel of "getting on" is futile as any sort of solution or alleviation of the social problem, or of the millions of individual problems bound up in it. For everyone who "gets on" someone "gets out," for everyone who goes up someone must remain down. All sorts and conditions of men, and an infinite variety of work and capacity, are needed to make a world; and while this is so, and the "lower" ranks are as necessary to the "higher" as one half of a pair of scissors is to the other half, the only just and rational order of things is one which accepts this fundamental fact of social and industrial relationships, and recognizes that all necessary and honourable service well done is entitled to be requited by opportunity for full life and happiness.

Why Capitalists could save

One may agree with Mr. Hartley Withers that Capital does not consume all its wine, but lays down "an enormous cellar for the use of future generations"; but it is not "everyone who is now alive in this country" who can help himself, but only the capitalists' descendants and the investing class which grows out of them. Moreover, it was possible to lay down the cellar only because labour became so productive that it produced more wine than the capitalist could possibly consume. Capital, as we have seen in a previous chapter, is wealth produced by labour, and the day has long since passed when the capitalist's portion was so small that he had to practise abstinence in order to develop his business. And even that abstinence was undertaken only on the principle of throwing a sprat to catch a mackerel. So long

as the worker toiled—and having neither land nor instruments of production he could only do that or starve—the wealth which the capitalist abstained from consuming returned to him in increased amount. If labour had not been available—if the workers had had power to withhold it—the capitalist could have abstained as long as he liked and not have added a penny piece to his store. He himself was, in reality, fully aware of this, hence the harsh measures with which he met all attempts of the workers at combination. It was the worker who really practised abstinence by taking low wages, and leaving for the capitalist a share of the product large enough to permit of saving.

Source of Worker's Wages

We come now to the second claim. This is that the abstinence of the capitalist is responsible for the creation of a fund—the "wage-fund"—from which the worker is paid his wages and which alone makes possible his employment.

There might be something in this contention if the worker received his wage when he started work instead of when he has finished an allotted portion of it, measured either by time or output, but this is never the case. Before the worker receives a penny he has to create so much value. The capitalist is richer, not poorer, when the time comes to pay wages. Even though the partly finished product is not ready to be placed on the market, it can, if necessary, be used as a basis of credit, and it would count for so much in the event of the capitalist selling his business. Nevertheless, it remains true that in the production of most things the worker cannot consume what he produces as he goes along, and perhaps months or even years must elapse before the capitalist can realize in money the value of what is being produced—say, a mammoth building or a battleship. Meanwhile, the worker has to be fed and clothed. Do not the food and clothes come from a store accumulated by the capitalist, represented by money, perhaps, but none the less effectively provided, since the worker himself has nothing?

The worker needs bread. The capitalist, as a matter of fact, has not a solitary loaf, except those in his own kitchen for his own domestic consumption. The bread which the worker will eat is being produced for him by another worker, who is doing so

because he knows there is a demand for it, and that, by making bread, he himself can get, say, boots. It is the knowledge that the bootmaker is making boots and the tailor clothes that induces the baker to bake bread. The capitalist gets the worker to work for him because the worker in the modern world has no power to produce without those means of production of which the capitalist class has monopoly; the worker does not toil because the capitalist has a store from which to sustain him until his task is complete. The power of the master lies *in the possession of the instruments of production and in that alone.* If the worker were not sure that he could turn his money wages into bread and boots and other necessaries, he would not work at all, and he has confidence that he will be able to do so only because other workers are at the same time producing the things he needs.

"Production the Mother of Wages"

A general strike in a great city would at once demonstrate the falsity of the contention that labour is sustained while working by the accumulations of the capitalist. Suppose all the productive workers to be on strike, and suppose, further, that all outside supplies are cut off. Now, further, suppose that the capitalists, being humane men, desired to feed the starving populace. Could they do so? We know that, except what they might produce from their family larders, not one solitary slice of bread could they provide. What, then, becomes of the store from which, before the strike, they were supposed to be maintaining their employees who were engaged on the production of commodities which could not be immediately put into consumption? It was non-existent. The capitalists as capitalists would in such a situation be helpless. "Production," as Henry George has said, "is the mother of wages. Without production wages would not and could not be."[15]

Fortunes founded on Evil Conditions

Summing up, so far as we have gone we see that it is not true that the share of wealth taken by the capitalist is the reward of abstinence, for it is a familiar fact of life that in no

[15] *Progress and Poverty*, p. 38, 1906 ed. The point is elaborately treated in chapters iii and iv of George's work. See also *Labour Defended*, by Thomas Hodgskin, pp. 35–52, reprint of 1922.

direction whatever does the modern capitalist class practise anything which, without the misuse of language, can be described as abstinence. Such abstinence as capitalists have practised, within the well-understood meaning of the word, was confined to the early period of capitalist production; it was possible, and could only have been made possible, because the capitalist took from the product of industry, at the expense of wages, more than was required for his immediate needs, even allowing him a standard of comfort far higher than that of the wage-earner. The true "abstainer" was the worker, who usually eked out a miserable existence. Further, we have noted that a fact of prime importance in producing the capitalist class has been inheritance, and that even if we assume that the progenitors of the capitalists of our time earned all their gains, that is not to say that their descendants, who have neither laboured in the same way nor shown the same enterprise, should draw an even larger share of the industrial product. Society has long since questioned the wisdom of permitting fortunes to pass undiminished from generation to generation, and by death duties and legacy duties has restricted the rights of heirs and other legatees. Finally, it is a very generous assumption that the forerunners of the modern capitalists did really earn all they received. As we shall see in a later chapter, the development of the factory system, of coal-mining and of modern industrialism generally, was associated with conditions of life and labour which, even as described in Government reports of the time, make some of the most dreadful pages of reading in the history of this country. The wealth of the capitalist class was founded in a very large degree on the frightful overworking of little children in vile conditions, and on the debased lives and broken bodies of a large section of the men and women of the working class. Gross evils persisted right into the present century.

Abolition of Capital not the Aim of Socialism

We now pass to the third claim of Capital—that the increase in productivity is due, not only to capital itself, but to the way in which capital is organized and labour directed by the capitalist. Mr. Withers says:—[16]

[16] *Case for Capitalism*, p. 95.

> The only thing that labour could produce by itself would be berries off the trees, roots out of the ground, and perhaps birds and beasts which the labourer might, and might not, be lucky enough to kill with his own hands. This could hardly be called production. It is simply taking what Nature provides. As soon as labour wants to produce in earnest, in the modern sense of the word, it has to provide itself with some sort of tool or weapon; that is to say, it has to work for some time without receiving any reward, in order that it may work more efficiently in the future. As soon as it does so it becomes a capitalist.

This criticism is founded on the common, but quite mistaken, assumption that Socialism presupposes that the community can do without capital, and seeks to abolish it.[17] That is not so. Socialism contends, not against capital, but against the private ownership of capital—a very different thing. If the community, through its political and industrial organization, had unrestricted access to the resources of Nature it could be trusted to produce, not only Mr. Withers's "berries of the trees and roots out of the ground," but all it required worked up into the multitude of forms which satisfy the needs and pleasures of a modern community. Mr. Withers appears to regard as of little account "simply taking what Nature provides," but the whole social and economic problem is at bottom nothing more nor less than a question of how the people can secure for themselves the right to do just that thing.

People barred from Nature's Resources

At present, between the people and the resources of Nature, which, with the application of labour, are the source of all wealth, stand the capitalists and the landowners taking toll of the effort of the mass of the community. So far from the community being free to exercise the right of "taking what Nature provides," it can get access to Nature in the form of land and minerals, and the products of Nature in their social forms—the iron-ore which

[17] I am using the word "capital" in the generally understood sense of things which assist production—machinery, tools, factories, etc. Strictly speaking, a distinction should be made between "capital" and "means of production," as the essential characteristic of capital is that it is used to exploit labour for the profit of its owner. In that sense it is true that Socialism would abolish capital—but obviously in that sense only. The distinction may have its uses, but what is of first importance is that the meaning attached to a particular term should be defined—hence this note

through labour has become machinery, the timber, clay, and ore which through labour have become the woodwork, brickwork, and ironwork of the factory structure—only by permission of their landed and capitalist owners and, by yielding up to those owners whatever wealth is produced, the workers receiving back an amount which always tends to be not more than their subsistence. Socialism, needless to say, does not claim that simple human labour could produce so much, or in such great variety, unaided, as with the marvellous mechanical and scientific resources which are at the disposal of Capitalism, but it does say that those resources could be owned and operated by the community with far better results for the general welfare than is the case with private ownership to-day. As a defence of Capitalism there is, therefore, but little force in the claim that capital increases the productivity of labour. Admitted: but capital could perform a similar function in the service of society as a whole, and it is the aim of Socialism to see that it does so.

Ownership divorced from Direction

Now what does industry owe to capitalist direction and organization? The answer is that it owes very little, and that that little is growing less. As in the case of the "abstinence" plea, the factor of time is here a vital one. In the early stages of Capitalism the man who owned the enterprise ran it as well, but to-day this obtains only in the smaller businesses, which, whatever their number, are of steadily diminishing importance in the national economy; it does not apply in any of the great basic industries on which all the others and the nation's whole economic life depend. The typical forms of capitalist enterprise to-day are the joint-stock company, the combine and the trust, and the combine and the trust are becoming the dominant types at a rapid and steadily accelerating pace. In these large concerns ownership and direction are divorced. Managers and supervisors of all grades are hired at a salary. Shareholders and debenture holders—the capitalists—may never even see the concerns in which they have put their money. The directors themselves hold only a portion of the capital, and depend largely on the advice of full-time salaried experts. The qualification for a directorship is sometimes the

investment of so much money and sometimes a title or social and political influence.

The fact that there is nowadays, in the typical capitalist concern, no necessary connection, and, in actual fact, at most but a slight connection, between ownership of capital and management is perhaps best shown by two illustrations.

Dealings in Shares mean Change of Ownership

By the sale of shares the ownership of many businesses varies from day to day, but production is not thereby affected in the least. Given the money and the opportunity in the market I may go out and buy large blocks of shares in one or more industrial enterprises. I thereby become a considerable owner in those enterprises, but I may know nothing about their processes of production or the details of their commercial organization, and perhaps not even be aware of the situation of their premises. Nobody employed at the factory or works, from the manager to the youngest apprentice about the place, will know of the change of ownership that has taken place, and neither the quantity nor the quality of the product will have been influenced one pennyworth. What, then, would become of my claim as a capitalist to be an organizer and director of industry? Clearly, the claim would be an empty one, but not more so than that made by, and on behalf of, capitalists in general, by the apologists of Capitalism, for my position would be precisely similar to that of the capitalist distinctive of our time.

Foreign Investments

The other illustration is that of foreign investment. Enormous sums are now invested in an immense variety of industries scattered throughout the world.[18] Capitalists who so invest

[18] Sir George Paish estimated that the total foreign investments of the United Kingdom in 1907–8 amounted to £2,693,000,000. F. Lavington, *The English Capital Market*, 1921, p. 186: "It was commonly held in the City prior to the war," says Professor Lavington, "that the annual savings of the United Kingdom were then about £400,000,000, and were divided half to foreign, half to home investment," p. 205. In evidence before the National Committee on Debt and Taxation in August 1924, Mr. W. T. Layton stated that "in the five years before the war there were £482,000,000 of foreign investments and

their wealth have, as a rule, never seen, and never will see, the enterprises, perhaps not even the countries, in which they have placed their money. Obviously in this class of investment the capitalists do not function as organizers and managers—industry owes nothing whatever to their direction—yet the relation of the capitalist to this class of investment is not essentially different from his relation to home investment.

When Capitalists also Control

Even in those cases where a great capitalist may have a large holding in a particular concern or concerns, and at the same time take an active part in its direction, the enormous income which he draws cannot reasonably be claimed as a just reward for his services, for businesses of this type have grown to such a size, and become so intricate in their organization, that the part of the individual is of relatively minor importance. If the late Lord Leverhulme had died when in his small local business, the business might possibly have died with him, for it depended to a very large extent on his own enterprise and exertions. When, however, Lord Leverhulme died in May 1925, not a ripple passed over the gigantic business of Lever Brothers beyond that of personal sympathy and regret. It would be safe to say that not one ounce less of soap was produced and not one customer disappointed of delivery as a consequence of the death of the celebrated chief; and at the end of the year the profit, after deducting £474,025 for debenture interest and making "ample provision for depreciation," totalled £5,556,869, which was £80,702 more than in 1924 and £464,891 more than in 1923, and represented a return of approximately 10 per cent. on the capital of £56,627,546.[19] It seems evident from these figures that the prosperity of Lever Brothers was not dependent on the direction of its founder.

As to the connection between the accumulation of riches and personal character, note in passing the following testimony

£381,000,000 of colonial investments. In the five years since the war there have been £145,000,000 of foreign investments and £321,000,000 of colonial investments."—*Report of Committee*, p. 21.

[19] *The Times*, April 8, 1926.

from one of the most successful business men this country has ever seen—the late George Cadbury:—[20]

> Both in England and America too much is made of men who are successful in business. Success in business is not a test of fine character. It is often the reverse. Men of refined mind are not often those who make great fortunes. It is not even a test of diligence. Some men without any extraordinary diligence have a knack of making money, while many men of refined mind, though equally diligent, fail to succeed.

We will conclude our reply to the third claim of Capital with Paul Lafargue's admirable summing-up of the disappearance of the capitalist as a directing agent, thus:—[21]

> In the system of small landed property and petty industry, property was an appendage of the proprietor, as his instruments were an appendage of the artificer. Industrial enterprise depended on the personal character of the proprietor: his thrift, activity, and intelligence, just as the perfection of his work depended on the skill of the artificer who handled the implements. It was impossible for the proprietor to sicken, age, or retire without endangering the success of the industrial undertaking of which he was the soul. He fulfilled a social function that had its pains and penalties, its profits and rewards. Property at that epoch was truly personal, whence the popular saying, "*La propriété est le fruit du travail*" [Property is the fruit of labour]. But modern production has reversed these terms; the capitalist is no longer an appendage of his property, whose prosperity no longer depends upon his individual worth. The *eye of the master* has lost its occupation.

"Risk" run by Capitalists

We arrive now at the fourth point—the claim that it is the capitalist who takes the risk associated with industrial enterprise, and that only exceptional reward would induce him to do so. Here once more the factor of time enters. When the capitalist had all his eggs in one basket—his own relatively small concern—there was undoubtedly an element of risk in what he undertook, though even this was modified by the fact that the era was one of steadily expanding markets. The modern capitalist, however, takes care to have his wealth distributed over a number of baskets,

[20] A. G. Gardiner, *Life of George Cadbury*, 1923, p. 116.
[21] *Evolution of Property*, 1890, p. 169.

the more the better. In some of the baskets, at any rate, good dividends are always being hatched. The bigger the capitalist the less the risk. This explains why, no matter how trade in general may be depressed, and how wide and deep the misery of the unemployed, the capitalists' mode of living remains the same. It is not they who have to go to the guardians, or queue up at the Employment Exchange, or fill the pawn-shops with their household goods. In the case of minor capitalists a tightness of money during a trade slump may cause the postponement of certain contemplated expenditure, but the capitalists do not, as is the case with large masses of the working class, have their standard of life terribly reduced; there is no danger of their homes being broken up, of petty savings being exhausted, and of ambitions for home and children, though modest enough, being wrecked. Like the theory of capitalist abstinence, the argument of capitalist risk is shown to have little foundation when tested by facts of life which are within common observation. "Capitalists as a class are never in peril."[22]

The Workers' Risks

But if the capitalist can claim an exceptional reward for risk of money, what of the claim of workers who invest their lives in their occupations? Accidents in factories in 1924 totalled no fewer than 169,723, of which 956 were fatal. What of the risks run by seamen and miners? The Royal Commission on the Coal Industry, 1925, gave the annual death-rate per thousand miners from accidents, and the annual number per thousand of serious accidents, minor accidents, nystagmus (a disease of the eyes) and other industrial diseases, and illustrated the risks actually incurred by the miners by applying these facts to a group of one hundred men assumed to work underground for twenty years. This was the result:—[23]

> At present rates of accidents and disease, therefore, it may be expected that in twenty years, among the hundred men, in round figures, two will be killed, nine will suffer fracture of the head or limb or other serious

[22] Emile Vandervelde, *Collectivism and Industrial Evolution*, English ed., 1907, p. 103.

[23] *Report of Commission*, pp. 191–2.

injury, eight will contract nystagmus, and eight more "beat hand, knee or elbow or inflammation of the wrist," a total of twenty-seven who will suffer, at one time or other, from these more serious dangers. In addition there will be among them during the period 353 cases of comparatively minor accidents, each disabling, however, for a period of more than seven days; that is to say, that each of the men, on the average, will incur an accident of that character about once in six years. . . . If a miner worked underground, as many of them do, for forty years and not twenty, these risks would, of course, be doubled.

A Government report issued in 1927 on the operation of the Workmen's Compensation Act and the Employers' Liability Act during 1925 showed that during that year in seven great groups of industries—mines, quarries, railways, factories, docks, shipping, and constructional work—there were no fewer than 476,085 accidents sufficiently serious to be dealt with by way of compensation, and of these 3,030 were fatal.[24] The worker also is faced with the grave and perpetual visit of unemployment.

Private Ownership not essential to Industrial Development

The moral foundation of the claim of Capital to exceptional reward is clearly relatively weak when measured against the risks run by Labour, but its economic foundation is even weaker. The capitalist assumption is that, unless capitalists receive an exceptionally large share of the industrial product, the development of new enterprises would not come about, because, owing to the risk of failure, labour would never be directed to that end. That may be so in some degree, in the case of capital held by private individuals, but given publicly owned capital and publicly controlled industry, it would be in the public interest that developments should take place and the benefits of the developments themselves would be a sufficient motive. Public industry not only would and could provide for its own development, but it could do so with this advantage—that it would not, of necessity, have to pay interest on capital allocated to developments. As M. Vandervelde has put it, "a Socialist State would have to practise abstinence in the sense of providing for renewals and extensions, but it would not have to pay in addition in order to

[24] *Labour Magazine*, April 1927, quoting the report.

reward the practice of abstinence."[25] Thus, even if the capitalist takes risks—which he does not in any great degree—and even supposing that that risk gives him a greater title to reward than the risk to life and limb gives the worker—which it does not—the community, if it would but take control of its own economic life, need not give special rewards to any capitalist for taking whatever risks there may be. The capital which the capitalist "risks" at a price could as well be provided by the "abstinence" of public enterprises or State and municipal banks could advance it at nominal interest, or even free of interest, as the urgency of the development to be undertaken and all the other relevant circumstances dictated.

Capitalism and Inventors: Early Examples

Now, what of the claim that Capitalism acts as an incentive to invention? There is but one thing to be said of it. It is simply impudent. It bears no relation to the facts. So far from Capitalism having stimulated invention, its treatment of inventors has been such as to stifle and discourage genius. This has been the case from the beginning of the machine age right down to our own time.

Henry Cort

We will take first the case of Henry Cort. Cort in 1783 and 1784 took out patents for an improved process of making pig-iron into bar-iron. It was an invention which "changed the whole history of the iron industry in England. Fifteen tons of bar-iron could now be produced in the time formerly required for producing a single ton, and moreover it could be produced by the use of coal in the place of charcoal."[26] Cort made an agreement with Adam Jellicoe, an official in the pay branch of the Navy—whose son was a partner of Cort's—whereby Adam Jellicoe advanced £27,000 on the security of the patents. Adam Jellicoe died suddenly, a defaulter in his Navy accounts, and although it is said two years' royalties on the patents would have more than covered the money owing to the Crown, the Government would not wait, but seized all Cort's patents. The

[25] *Op. cit.*, p. 108.
[26] Hammond, *op. cit.*, p. 140.

works were handed to Jellicoe's son. It was suggested that the ironmasters bribed someone in high authority to deprive Cort of his patents in order that they themselves should be relieved of paying a royalty. Be that as it may, Cort, although he at length obtained a Government pension of £150 a year, "died wretched and obscure in 1800, while the Crayshaws and other great ironmasters were making colossal fortunes by the gratuitous use of his inventions."[27] For, either through apathy or fear of litigation, the patents in Government hands produced nothing. The ironmasters had a free hand with the new invention, and, having made their pile out of Cort's brains, they in 1811 subscribed £871 10s. to assist his poverty-ridden descendants.[28]

Samuel Crompton

Another example is the case of Samuel Crompton, who in 1779 invented the spinning mule. This was the most important of all the inventions which revolutionized the cotton trade at the end of the eighteenth century.[29] Apart from greatly increasing the output, it made practicable the spinning of much finer yarn than had hitherto been possible in England, and it has been described by an authority as "one of the chief causes" of the cotton industry's being transferred from the Eastern world, which had been its seat for ages, to the West.[30] Crompton was a spinner of Bolton—a man in humble circumstances. It took him five or six years, and almost all his slender resources, to conceive and construct his mule. The yarn he then spun on it—working as a spinner for a living—excited attention by its fineness. "Every species of espionage was resorted to. People climbed up ladders to look at him through the window."[31] At length he was persuaded to show the mule to manufacturers who would subscribe to see it. He did this rather than destroy it. He was too poor to take out a patent. In return for the money subscribed Crompton not only

[27] Francis Espinasse, *Lancashire Worthies*, vol. ii, 1877, pp. 229–36.
[28] Hammond, *op. cit.*, p. 140.
[29] A grade of yarn—40's—for the preparing and spinning of which immediately after the completion of his invention, Crompton received 14s. per lb., could be bought in 1833 for one shilling per lb.—Andrew Ure, *The Cotton Manufacture of Great Britain*, 1836, p. 284.
[30] Daniels, *op. cit.*, p. 129.
[31] Espinasse, *op. cit.*, vol. ii, p. 15.

showed his audience the mule at work, but actually parted with it, "and," he says, "received only so much as built me a new one with four more spindles than the first."[32] Those who were at the demonstration subscribed a guinea or half a guinea, and "among the half-guinea subscribers were the names of many Bolton firms now [1860] of great wealth and eminence as mule spinners, whose colossal fortunes may be said to have been based upon this singularly small investment."[33] In 1822 Crompton received from Parliament in response to a petition a sum of £5,000 in recognition of his services. The amount was, however, considerably reduced by the expenses of the petition. He then started a business, but he had little commercial capacity, and at the age of seventy was in poverty. By subscription he was bought an annuity of £63. He was unable to make any provision for his children; and when in 1862 a statue of Crompton was unveiled at Bolton his son, John Crompton, aged seventy-four, was so poor that a public appeal was made on his behalf during the ceremony.[34]

John Kay

Take now the case of John Kay, who in 1733 invented the flying shuttle, a device by which the shuttle was mechanically impelled across the loom where previously it had had to be thrown by hand. "As a result of this invention the operative was enabled, not only to weave more rapidly, but to make himself the broader cloths which had previously required two men for their production, inasmuch as their width was greater than the stretch of a man's arms."[35] This invention was of the first importance in the development of the textile industry, but Kay got nothing out of it and died in poverty. The Yorkshire clothiers not only used the shuttle and refused to pay for it, but actually formed

[32] Daniels, *op. cit.*, p. 169. Espinasse (p. 17) gives the amount of the subscription as £67, but evidence before the House of Commons Committee which later dealt with Crompton's petition for recognition was that it amounted to £106 (Daniels, p. 187).

[33] Espinasse, vol. ii, p. 19, quoting Gilbert J. French, *Life and Times of Samuel Crompton*, 1860.

[34] "Since Crompton's time a host of inventors have laboured to render all parts of the mule thoroughly automatic; this has led to many changes and additions, but none of its essential features have been discarded."—*Ency. Brit.*, 11th ed., art. "Spinning."

[35] Sydney J. Chapman, *The Lancashire Cotton Industry*, 1904, p. 19.

"The Shuttle Club" to cover the cost of any prosecutions. "Kay became involved in so many law and Chancery suits that, although they were decided in his favour, he was nearly ruined."[36] In 1764, when his shuttle was in general use, Kay appealed to the Society of Arts for recognition, and claimed that he had many other inventions which he had not put forward, owing to the treatment he had received from those engaged in the cotton and woollen industry and from Parliament.[37]

James Hargreaves

Another example of the same period is that of James Hargreaves, a weaver, of Oswaldtwistle, near Bolton, who in 1770 patented the spinning jenny which first made it possible for more than one spindle to be worked at one time by one person, and therefore more than one strand of yarn to be spun. The first jenny had eight spindles, but it was rapidly improved, and was soon responsible for an enormous increase in the production of yarn. When the Lancashire manufacturers used his invention without payment, Hargreaves gave notice of action. The manufacturers offered him £3,000 for the right to use the machine, but Hargreaves stood out for £4,000. There was no agreement, but before the case came on for trial Hargreaves had been compelled to sell some of his jennies to obtain clothing for his children, of whom he had six or seven. In view of this, his lawyer threw up the action in despair of securing a verdict.[38] The jenny was never effectively patented,[39] and in addition to his trouble with the manufacturers Hargreaves had to face the opposition of the operative spinners, who feared that his device would throw them out of employment. Some of his earliest jennies were destroyed by a mob of spinners, and following this he removed to Nottingham, where with a partner he set up a small cotton mill and worked in the business for the remainder of his life. He is said to have left property worth £7,000, but, even if that be so, it came from

[36] Espinasse, *op. cit.*, vol. i, p. 313, quoting Bennet Woodcroft's *Brief Biographies of Inventors*, 1863, p. 3.
[37] Daniels, *op. cit.*, p. 73.
[38] Espinasse, *op. cit.*, vol. ii, p. 320, quoting Edward Baines's *History of the Cotton Manufacture.*
[39] Butterworth, *op. cit.*, p. 114.

cotton spinning as such, and was not the direct reward of his inventive genius. His widow received only £400 for her share in the business, and when she died Hargreaves's children were left very poor. Joseph Brotherton, the Radical M.P. for Salford, tried to raise a fund for them, but found great difficulty in getting from the wealthy manufacturers enough to save the children from destitution.[40]

Edmund Cartwright

The case of the Reverend Edmund Cartwright, the inventor of the power-loom, though not so tragic as that of Crompton and others, is yet another instance of how capitalist interests fought inventors. His patent was invaded and disputed, and he was involved in expensive lawsuits. His workmen were enticed away. Eventually, in 1808, Parliament granted him £10,000 in recognition of his invention, "on which he had spent £30,000 in bringing to perfection"[41]—hardly a speculation which would appeal to a capitalist.

Makers of Money not Inventors

"No subject of complaint is more general," wrote Thomas Hodgskin in 1825—nearly fifty years after Crompton invented his mule—"than that the inventor of any machine does not reap the benefit of it. Of all the immense number of persons who have acquired large fortunes by the modern improvement in steam engines and cotton mills, Mr. Watt and Mr. Arkwright are the only two, I believe, who have been distinguished for their inventions. They also acquired wealth less as inventors than as capitalists."[42]

Watt and Arkwright

And even Watt and Arkwright were obstructed by capitalist interests operating either directly or through the law. James Watt, who greatly improved the steam engine, and by making the first engine with a rotary motion made possible the appli-

[40] *Dictionary of National Biography.*
[41] Bennet Woodcroft, *Brief Biographies of Inventors*, pp. 24, 25.
[42] *Op. cit.*, p. 63.

cation of steam-power to factories,[43] wrote to his partner, Matthew Boulton, that he was "tired of making improvements which by some quirk or wresting of the law may be taken from us."[44] Richard Arkwright, whose water-frame led to the application of water-power to spinning, and who invented devices for improving the carding process in yarn production, had a hard struggle to preserve his patents. The "Committee for the Protection of Trade," established at Manchester, was especially active in opposition, and "was determined that neither Arkwright nor anyone else should have a patent if they could prevent it."[45] However, Arkwright won through and became a successful cotton-spinner.

Elias Howe and the Sewing Machine

Another inventor who managed to win through, but whose case, nevertheless, is instructive in the issue we are discussing, was Elias Howe, the inventor of the sewing machine. Howe was born at Spencer, Massachusetts, and when working as a mechanic at Lowell conceived and constructed his sewing machine, which he patented in 1846. In the following year he visited England in the hope of introducing the machine into this country, but so "enterprising" were the English capitalists, so great was the "stimulus" which capitalist production gave inventors, that Howe completely failed in his mission. He returned to Boston, and there found that his patent had been infringed. "Harassed by poverty, he entered on a seven years' war of litigation to protect his rights, which was ultimately successful." Eventually he amassed a fortune of 2,000,000 dollars.[46]

Fate of Minor Inventors

If great inventors like Crompton, Kay and others had such a hard struggle, and in the case of some of them such a bitter experience, what must have been the lot of those who made

[43] His earlier engines and those of his predecessor, Thomas Newcome, had been used for pumping, largely at mines.
[44] Daniels, *op. cit.*, p. 105, quoting Smiles's *Boulton and Watt.*
[45] *Ibid.*, p. 103.
[46] *Chambers's Biographical Dictionary*, ed. 1926.

useful but minor devices, by which industrial processes were steadily improved though no fundamental change in methods was brought about? These devices must have been much more easily infringed. Such improvements abounded in connection with textile machinery, so much so that Mr. P. R. Hodge, a civil engineer, in evidence before the House of Lords Committee in 1857, said that the spinning machinery then in use was supposed to be a compound of eight hundred inventions and the carding machinery a compound of about sixty inventions.[47] It was doubtless the fate of these little-known inventors which Dr. Andrew Ure, an early historian of the cotton industry, largely had in mind when he penned this bitter protest:—[48]

> What a warning voice does the fate of Hargreaves and Crompton send forth to inventors and improvers of the useful arts! How strongly does it justify the sound and self-respecting energy of Arkwright! Until men, the slaves of selfishness, be regenerated by the spirit of Christian philanthropy, it is folly akin to fatuity for the industrious operative to surrender to the comparatively rich, without a fair equivalent, the fruits of his ingenious toils, in the hope of requital from the world at large. How absurd such expectations are we daily see exemplified in the scandalous effrontery with which avarice appropriates to its insatiable desires discoveries which its dark spirit could never have elicited, acting in defiance not merely of honour and honesty, but of the most positive sanctions of law. What shabby tricks, nay, what infamous perjury, does not almost every case of patent litigation display!

George Stevenson—"Fraud" and "Lunatic"

The opposition to George Stevenson, the most notable inventor of railway locomotives, seems nowadays unbelievable. It is true that this must in some degree be attributed to the incredulity with which the average person in all ages has received any proposal which involved great change in social habits; but much of it, nevertheless, was inspired by hostile financial interests such as the landowners and the canal companies. Stevenson was vehemently denounced as a fool and a fraud. Every kind of sneer and satire was directed against him. When his proposal to construct the Manchester and Liverpool Railway was before a

[47] J. A. Hobson, *Evolution of Modern Capitalism*, 1906 ed., p. 79.
[48] *Op. cit.*, pp. 283, 284.

Parliamentary Committee, "it was called the greatest draught on human credulity ever heard of. It was erroneous, impractical, and unjust. It was a great and scandalous attack on private property, upon public grounds." Stevenson's directors, in order that the Committee might not get too great a shock, urged him to be very modest in his suggestions as to what the railway might achieve, "but even when he only recommended a speed of eight miles an hour with twenty tons, and four miles an hour with forty tons, the Committee deemed him mad and the counsel ridiculed him. . . . He was sneered at as a visionary and pitied as a lunatic."[49]

Patent Laws handicap Inventors

Let it not be imagined that this discouragement of invention was characteristic only of the early days of capitalist industry. In the middle of the nineteenth century the inventor was still faced with immense difficulties, and often robbed of the fruits of his brains. A legal writer summed up the objections to the patent laws of that time as being their complicated and dilatory procedure, the enormous cost of getting a patent grant, and the failure of the law to protect either the inventor or the public.[50] A patent very frequently cost in stamps and fees £120—apart from an agent's fee of £10—and if there were opposition the cost would be added to by a further £30. Even these sums protected the inventor only in England and the Colonies. The cost of securing that the patent should cover Ireland was another £120, and to cover Scotland an additional £80. This writer adds:—[51]

> This enormous cost of patents throws many serious difficulties in the way of inventors. Such persons are seldom affluent, but, on the contrary, are generally in straitened circumstances, frequently very poor. Many intelligent workmen are possessed of very considerable inventive power; but being unable to pay the cost of a patent for anything they may invent, they have no motive to turn aside from the beaten track, but continue to follow the old and well-known method of operation, however imperfect

[49] Francis, *op. cit.*, vol. i, pp. 98–114.
[50] W. M. Hindmarch, barrister-at-law, *Observations on Defects of the Patent Laws of this Country*, 1851, p. 2.
[51] *Ibid.*, p. 13.

it may be. . . . And if an artisan should seek the assistance of a capitalist to enable him to obtain the means of securing a patent, he must disclose the invention to the man of whom he is in fact asking a favour, and thus put himself wholly in the power of the capitalist, who may dictate his own terms respecting the assistance which he will afford and the means of doing it. In such case poor inventors usually pay dearly for the assistance they obtain; and it frequently happens that they fail to obtain any profit from their invention. . . . Many cases occur in which inventors are entirely deprived of the benefits of their inventions by the fraudulent conduct of the persons to whom they have been induced to trust in this way.

Yet the capitalists in the main expected to be trusted. They very largely resented the patent laws, bad as they were from the inventors' point of view, because they meant that the capitalist had to pay what he termed a "monopoly price" for the products of other people's brains. This objection was particularly strong when the brains happened to be those of a workman—and they usually were.

Most Inventors Operatives

Giving evidence before the House of Lords Committee of 1851, Isambard Brunel, the celebrated civil engineer, was asked whether scientific men or operatives were usually responsible for inventions, and he replied, "I think the greater number of inventions have originated with practical operatives."[52] Not that Brunel favoured the patent laws; on the contrary he strongly opposed them. He argued before the Committee that the patent laws led workmen with ideas to throw up their occupation and "shut themselves up," in the hope of winning a fortune by their inventions. Many of the things produced, he said, were afterwards found to have been already made by others, for men set in similar circumstances tended to develop similar ideas. It would be better, Brunel argued, for the workman to offer his idea to his employer, who would give him "a pound or a five-pound note" for it if it were a good one. "An inventor, a schemer," the great engineer added, "is a poor man who is more likely to go into the workhouse than anywhere else."

[52] *Minutes of Evidence, Lords Committee on Bills to Amend the Patent Laws*, 1851, Q. 1780.

Manufacturers' Dislike of Inventors

The same point of view was expressed with greater intensity by John Lewis Ricardo, M.P., who was chairman of the Electric Telegraph Company, which he established in 1846.[53] He said he had frequently found that those who opposed improvements were engaged in the manufacture of products to which the improvements related. "In nine cases out of ten" inventors were sent away. Then others took up the invention and brought it out in opposition to others already in the trade. It was put to Mr. Ricardo that, as manufacturers were opposed to inventions, did it not require the stimulus of patents to force improvements in manufacture? He replied:—

> Under the present system a workman never attempts to improve upon anything which his master is using, but he attempts to make something quite different from what his master has; he then tells his master, "Now I will not show you this, but here is an improvement by which I can do so and so; if you will not buy it of me I shall take it to your competitor and see if he will buy it of me." Therefore, by means of the patent system you create two distinct interests, the interest of the workman in opposition to the interest of the master. The natural course would be, and what I think is the fair and proper relation between master and servant, that when the workman sees any improvement in any part of the machinery he should tell his master of it; and if it is adopted, I think in 99 cases out of a hundred, certainly in every case in my experience, a reward has been given to him in proportion to the utility of his invention or his improvement; if an employer will not do that he refuses at his own peril, for it soon gets round that the workman has improved this or invented the other, and therefore he is put at his real value. . . . *There is no patentee, and very few manufacturers, who do not hate the sight of anybody who can invent; they discharge a workman sooner for inventing or improving than for anything else.* . . . They do not want improvements because they know that they will have to pay for those improvements a monopoly price.

Manufacturers jealous of Workmen Inventors

Further light was thrown on the attitude of capitalists to the inventive workman by the evidence of James Meadows Rendel,

[53] *Report of Committee, Appendix A.* This witness was also chairman of the North Staffordshire Railway, the Metropolitan Railway Company and the Norwegian Trunk Railway, and a director of the London and Westminster Bank. He was himself a patentee, but obviously so well situated a capitalist did not need the same degree of protection and assistance as would be necessary for a man of small means, or, indeed, anyone without capitalist associations.

a civil engineer. "Is it ever the case now," he was asked, "from the stimulus given by the hope of obtaining a patent to a poor man and inventor, that the manufacturer becomes jealous of the ingenious workman?" Rendel answered:—[54]

> I can perfectly comprehend, and believe it does happen, that selfish manufacturers, having derived the full advantage of the workman's originality of conception, have from selfish motives discharged them. I know it is not a very uncommon thing for manufacturers to say, "This is a talking ingenious fellow, who is half his time scheming; we will not have anything to do with him"; that is commonly said among them; but there are other manufacturers who, on the contrary, seek out such men.

Rendel believed that patents had done great good as well as some evil, and that "a very large proportion of the evil has orginated in the absurdity of the law."

Protection from Capitalists necessary

A specific instance of how little a workman received for an improvement when the matter was left to the discretion of his employer was cited before the Committee by Thomas Webster, a barrister and a leading authority of the time on the law of patents. He said in evidence that one of the difficulties of the power-loom in its early years was that when the shuttle happened to run out of its course the continued running of the loom would often tear the fabric. After years of work an operative invented a device by which, immediately the shuttle got out of place, the loom was automatically brought to a standstill. "What was the result?" asked Webster. "Why," he said, answering his own question, "the manufacturer paid him five shillings a loom for it." After some litigation the inventor succeeded in establishing a patent. "If," said Webster, "you do not give some legal protection to the workman, he would never get sufficient reward for his ingenuity; it would be taken advantage of by the master and absorbed by the capitalist, while the workman, the inventor, would get nothing."[55]

[54] *Minutes of Evidence*, Q. 2539.
[55] *Ibid.*, Q.'s 43 and 44.

Unenterprising Private "Enterprise"

Such, then, was the attitude of capitalists to invention right in the middle of the nineteenth century, the heyday of Capitalism. So far from welcoming or encouraging industrial progress, the capitalist, so long as he was making money, often preferred to go on in the old way, unwilling to risk more than a few shillings, or, at most, "a pound or a five-pound note," on a new device, and jealous and resentful of anyone who, more enterprising than himself, should do so. The capitalist regarded the inventor's brains as his own property; because he was not always able freely to annex them he often grew to hate the inventor, out of fear that he should take his ideas to a more fair-minded competitor. Private "enterprise" was the reverse of enterprising. This was Individualism in action. One can only speculate on how much was lost to the nation and mankind at large by such discouragement, amounting at times to victimization, of those ingenious workers whose class, as Brunel testified, was responsible for "the greater number of inventions."

Commission on Patent Laws, 1864

Thirteen years later a Commission investigated the state of the patent laws, but its recommendations left the poor inventor still heavily handicapped. Nothing was proposed to lessen the cost of securing a patent, which then stood at £175. For a sum of £25 a device could be provisionally protected for six months. If a patent were granted an additional £50 had to be paid within three years, and a further £100 before the end of seven years. "About two-thirds of the patents granted," the Commission reported, "become void at the end of the third year for non-payment of £50, and less than one-tenth are continued beyond the seventh year."[56] Even allowing for the probability that a proportion of the patents were found to be not worth keeping up, all the circumstances point to many having lapsed owing to the poverty of the inventors. The Commission by a majority recommended that patents should not in future remain valid

[56] *Report of Commission on the Law relating to Letters Patent for Inventors*, 1864.

for more than fourteen years. Only W. M. Hindmarch and William Fairbairn, a civil engineer, in a minority report, supported the continuance of the right to apply for an extension of the patent, their view being that fourteen years might not in all cases be sufficient justly to recoup the inventor. Obviously the poorer the inventor the greater the difficulty in getting a quick return for his labours. Watt, for example, secured a profit from his steam engines only by prolonging his patent beyond fourteen years.

Patents Bill, 1907: Mr. MacDonald's Testimony

Coming down to our own day, the same story is continued. Mr. Ramsay MacDonald has written that he served on the Parliamentary Committee which considered the Patents Bill of 1907, "and it was a liberal education. The lobbying which went on on behalf of capitalist interests was unceasing. Every unassailable security for the patentee that was proposed was rejected or weakened. . . . The brains of the inventor have to be kept rigidly subordinate to capitalist interests."[57]

The War and Invention

Finally, the experience of the war completely exploded the contention that Capitalism encourages invention, and, on the contrary, revealed that it works in such a way as to get the minimum rather than the maximum out of the inventive resources of the nation. Dr. Christopher Addison, who as successively Under-Secretary and Minister at the Ministry of Munitions from May 1915 to July 1917 is in a position to speak with first-

[57] *Socialism: Critical and Constructive*, 1921, p. 120. Mr. MacDonald adds: "It is true that recently Capitalism has become aware of the need of employing scientific skill. This is partly the result of combination. . . . The scientific wage-earner, however, is tied hand and foot to his employer. In the nature of things only exceptionally wealthy firms or combinations can employ him, and his field of free movement is narrow. Everyone in it is marked. If he leaves one firm, that firm can decide whether another is to employ him or not. . . . He is generally tied by a restrictive agreement. This is not an imaginary description: it is the story told me by one of those workers," p. 121.

Under the Act of 1907 a patent runs for fourteen years, and the patentee may then apply for an extension on the ground that he has not been sufficiently remunerated,

hand knowledge, has stated that the war showed, "first, that, owing to the policy we have pursued, the supply of trained scientific workers was far behind the demand for them; and, second, that, when opportunity was given, a wealth of unused ability was discovered." Dr. Addison continues:—

> At present grave difficulties are placed in the way not only of the inventor but of the humble deviser of minor improvements. In many directions existing interests are so consolidated that it is difficult for an inventor to put a device upon the market which it is apprehended may be detrimental to them, in addition to which there is a thicket of legal and technical difficulties to be dealt with.

Ability wasted by Capitalism

It was in the face of these conditions that the Ministry of Munitions set up an Inventions Board, and the result was that "within eighteen months of the commencement of the scheme research and experiment were in progress on no less than two thousand of what appeared to be promising and practical ideas. *It is certain that more than* 90 *per cent. of these suggestions would have been smothered in their birth under the existing system.*" (My italics.) Dr. Addison's conclusion is that, "given the opportunity which nationally organized and impartial consideration might afford, there was, and is, amid the mass of humble folks, a wealth of ability which the present system discourages and cripples in a wholesale fashion."[58]

The record of history from the dawn of modern Capitalism to our own day completely disproves the claim that capitalist production acts as an incentive to invention.

There remains, among those so far cited, the claim that Capitalism is good for the consumer because it involves competition which, it is held, cheapens production, lowers prices, and is the driving force of industrial progress. This claim demands more extended treatment, and the following chapter is devoted to it.

[58] *Practical Socialism*, 1926, vol. ii, pp. 10, 12.

CHAPTER V

THE PASSING OF COMPETITION

The progress of the industrial revolution in Great Britain during the earlier half of the nineteenth century was marked by increasing freedom and force of competition in industry as old restrictive regulations were swept away and as transport enormously improved . . . during the last quarter of the century there was a marked trend towards the limitation of competition in many ways.—*Committee on Industry and Trade, Third Report*, 1927, p. 68.

The future is undoubtedly with the big unit, but its toleration will be conditional on an adequate appreciation of the requirements of the common weal. —*Final Report of the Departmental Committee on Distribution and Prices of Agricultural Produce*, 1924.

We find that there is at the present time in every important branch of industry in the United Kingdom an increasing tendency to the formation of Trade Associations and Combines having for their purpose the restriction of competition and the control of prices. . . . Trade Associations and Combines are rapidly increasing in this country, and may within no distant period exercise a paramount control over all important branches of British Trade.—*Report of the Committee on Trusts*, 1919.

A BELIEF in the virtues of industrial competition is a leading article in the creed of Capitalism. Competition, it is held, not only protects the consumer against excessive prices, but is the motive force of industrial progress. The argument runs like this: If in any industry excessive prices are being charged and exceptional profits made, capital, eager for the greatest possible return, will flow into that industry. This will lead to an increase in supply, and prices will fall until profits are once more at a level which will bring approximately the average return to capital. (How long this process may take, and the extent to which the consumer is victimized in the interval, is a point which receives no consideration—but that by the way.) The increased supply thrown into the market not only has the effect of bringing down prices, by placing the buyer at an advantage, but by intensifying competition forces producers to improve their processes of manufacture and turn out a better article. Thus, it is held, the consumer in the end not only gets his goods at the old price level, but may get better goods for the same money or even less money.

This chapter will prove that, even assuming that competition did at one time work out in the manner described, there is no

such force operating to-day in the largest and most important divisions of the industrial field. The issue whether competition is, or is not, desirable is now irrelevant, for competition has largely disappeared from our economic life, and what is left of it is rapidly vanishing. It is a phase of industrial evolution on which the curtain has almost fallen.

THE COMPETITIVE ERA AND ITS DECLINE

Needless to say, no hard-and-fast line can be drawn separating the era of general competition from the age of capitalist combination with its gradual elimination of competition—for one thing, competition began to disappear much earlier in some industries than in others. We may, however, say that the dominantly competitive era had passed its zenith with the passing of the third quarter of the nineteenth, and that, at least, from the eighteen-nineties onwards there has been a rapid and steadily accelerating development of capitalist combination for the purpose of increasing profits by restricting output, fixing prices and effecting economies made possible by production on a larger scale.

Output accelerated by Mechanical Improvement

The course of prices throughout the nineteenth century, and in the twentieth century until the outbreak of the war, bears out this view. From the beginning of the age of steam and machinery to the last quarter of the nineteenth century prices, with fluctuations, mostly slight, over brief periods, fell, and both money wages and real wages (that is, wages considered in relation to price levels) rose. Capitalism was operating in such a way as to raise the standard of life of the people—not anything like so much as it might have been raised under a more rational system of society, in view of the enormous and unprecedented increase in the forces of production, it is true, but, nevertheless, securing an actual improvement.

Long after the revolutionary inventions of the late eighteenth and early nineteenth centuries had established the reign of steam and machinery, and led to the modern factory, works, and mining system, important industrial improvements were continually being made. As most of these did not effect any fundamental

change in industrial processes, or, like the earlier inventions, change the face of large areas of the country and revolutionize the lives of their people, they have attracted relatively little notice from the general historian, but they none the less meant a continual increase in the capacity for output, and the pouring of more and more goods into the markets where they competed fiercely for buyers.

Thus, as late as 1852 we find James Nasmyth, the famous engineer and inventor of the steam-hammer, writing from Patricroft to Leonard Horner, the factory inspector for the district, that the public were little aware of "the vast increase in Driving Power" that had taken place in recent years. "The engine power of this district," wrote Nasmyth, "lay under an incubus of timidity and prejudiced tradition for nearly forty years, but now we are happily emancipated." He went on to explain that during the previous fifteen years important changes had taken place, by which a "greater amount of duty" could be got out of the engine with the use of less fuel. For many years after the introduction of steam power the proper velocity was considered to be about 220 feet per minute of the piston. Thus if a piston had a five-foot stroke there would be twenty-two revolutions of the crank-shaft per minute. All mill gearing had been made to conform to this speed, "but now," wrote Nasmyth, "the tradition of 220 feet has become a matter of history."[1]

Railway and Steamship Development

Apart from mechanical improvements in the processes of production there was the immense influence of railway development and steam transit on the oceans. The Stockton and Darlington Railway was opened in 1829, and the Manchester and Liverpool Railway the following year. By 1843 there were seventy railway companies with an average mileage of thirty miles—say, a total of 2,000 miles—and by 1872 the mileage had reached 11,000. Thomas Tooke, watching the extension of this new and vital thing, well summed up its effect on the consumer:—

> Every mile of iron road that has been laid down has connected together a new or an old field of supply with wider circles of consumers; and it has

[1] Thomas Tooke and William Newmarch, *A History of Prices*, 1857, vol. vi, p. 534.

removed or diminished discrepancies of prices and inequalities of distribution. Aided by the facilities of the electric telegraph, extensive States have acquired for the purpose of commerce the concentration of a single city. Sources of supply formerly cut off from profitable application . . . have been raised at once into activity and value.[2]

Not only did states "acquire the concentration of a single city," but as time advanced various states acquired the concentration of a single market. The world market arrived; for railways were built in other countries and steamships rapidly became faster and more numerous. The building of railways in America and Russia—and by means of them the opening up of great tracks of new land—was an important factor in the fall of prices after the early eighteen-seventies.

Course of Prices and Wages

These, then, were the influences—increased competition, increased output, and improved transport, nationally and internationally—which caused the standard of living to rise throughout the greater part of the nineteenth century. The following table of the prices, in five-year periods throughout the greater part of that century, of commodities in common use is based on the statistics of Dr. Sauerbeck. The figure 100 represents the average prices of the commodities in the eleven years 1867–77 inclusive.[3]

Year	Level of Prices
1820	118
1825	117
1830	91
1835	92
1840	103
1845	87
1850	77
1855	101
1860	99
1865	101
1870	96

[2] *Op. cit.*, vol. v, p. 350.

[3] *The Course of Average Prices of General Commodities in England*, 1820 *to* 1907, by Augustus Sauerbeck, 1908. The commodities on the prices of which the statistics are based comprise wheat, flour, barley, oats, maize, potatoes, rice, beef, mutton, pork, butter, sugar, coffee, tea, iron, lead, tin, coal, cotton, flax, hemp, jute, wool, silk, hides, leather, tallow, palm-oil, olive-oil, linseed-oil, petroleum, soda, nitrate, indigo, and timber.

Year	Level of Prices
1875	96
1880	88
1885	72
1890	72
1895	62
1900	75
1905	72
1907	80

This table reveals an almost continuous fall in prices from 1855 to 1900. Although from 1855 to 1875 was a period of relatively high prices (that is, compared with the whole period 1840 to 1880), such was the demand for labour, owing to the rapid expansion of capitalist enterprise, and in the later years of the period so much had trade-union organization improved the bargaining power of the workers, that they not only maintained but improved their standard of life. Real wages as well as money wages rose. The following table, compiled by Professor A. L. Bowley, makes this clear for the period 1850 to 1873, the time of relatively high prices. It is evidence also that the position of the wage-earners improved throughout nearly the whole of the last century.[4]

Period.	Nominal Wage.	Prices.	Real Wages.
1818–1830	Falling	Falling fast	Rising slowly
1830–1852	Nearly stationary	Falling slowly	Rising slowly
1852–1870	Rising fast	Rising	Rising considerably
1870–1873	Rising very fast	Rising fast	Rising fast
1873–1879	Falling fast	Falling fast	Nearly stationary
1879–1887	Nearly stationary	Falling	Rising
1887–1892	Rising	Rising & falling	Rising
1892–1897	Nearly stationary	Falling	Rising
1897–1900	Rising fast	Rising	Rising
1900–1904	Falling a little	Falling & rising	Stationary

The effect of capitalist production in the early decades of the modern period on the standard of life is thus summed up by Mr. and Mrs. Webb:—[5]

[4] Quoted in *Progress of the Nation*, by G. R. Porter, 1912; edition revised by F. W. Hirst, p. 50.

[5] *The Decay of Capitalist Civilization*, 1923, pp. 81–2. Mr. and Mrs Webb point to the impossibility of fixing a definite time as being that at which this

If wages were low and the conditions of labour so bad as to be destructive of the people, the continued pressure for a cheapening of production —especially after the general removal of taxes upon commodities in common use—largely benefited the consumer. The profit-makers themselves found their greatest gain in increasing output and consumption by the continued lowering of prices of commodities that everyone consumed and of services that everyone used. Combination among capitalists in such a way as to permanently maintain prices above the cost of production was practically unknown. The whole nation shared through declining prices, combined with a reasonably stable currency, and on the whole stable or even slightly rising rates of wages, in the ever-growing stream of commodities, and steadily widened the range and increased the quality of their consumption.

Rise of Prices in Twentieth Century

The tables already given have taken us to the turning point—about the year 1900—when the fall in prices was checked and the rise began, and with the rise a fall in real wages and sometimes in money wages as well. Mr. G. H. Wood has calculated the course of wages and price from 1900 to 1910 as follows:—[6]

Year.	Average Money Wages.	Average Retail Prices.	Real Wages, allowing for Unemployment.
1900 (peak)	179	89	179
1901	179	90	175
1902	176	91	170
1903	174	91	164
1904	173	93	160
1905	174	92	163
1906	176	92	168
1907	182	95	170
1908	181	97	159
1909	179	97	157
1910	179	98	161

This shows that for the first ten years of the present century prices rose steadily, except for the slightest possible decline in

process ceased. They suggest it continued until "roughly the middle of the nineteenth century." I think this is placing it somewhat too early, at any rate, so far as any appreciable practical effects are concerned.

[6] Quoted by J. A. Hobson, *Gold, Prices and Wages*, 1924, p. 121.

1905 and 1906. On the other hand, real wages fell sharply, except for the years 1905 to 1907, and even then they were still appreciably short of the level at which they stood in 1900.

The report of a Board of Trade inquiry issued in August 1913 enables us to take the record farther. This report stated that between 1905 and 1912 rents (including rates) and retail prices of food and coal showed a combined increase of 10·3 per cent. This did not represent the full increase in living costs, for ready-made clothing was estimated to have risen 9·3 per cent., bespoke clothing 12·1 per cent., and underclothing 14·6 per cent. "If the comparison," the report stated, "is extended back to the year of lowest prices, namely 1896, the increase in food prices up to the year 1912 would appear to have been about 25 per cent."[7]

To meet this heavy increase in the cost of living, wages, between 1905 and 1912, rose very little. Of 88 towns investigated, the skilled building workers in only 26 towns received advances exceeding 2 per cent. In 45 towns wages had either not changed at all or, in the case of labourers, shown a slight decrease. The wages of skilled engineering workers were investigated in 57 towns, of which 54 showed increases of from 2 per cent. to 10 per cent.; and rather less for labourers. Compositors in 24 out of 78 towns had received no advance, and in the 54 in which increases had been gained they ranged only from 3 per cent. to 15 per cent. The average percentage increase in rates of wages in all the towns which came under review were: Building—skilled men 1·9, labourers 2·6; Engineering—skilled men 5·5, labourers 3·9; Printing—compositor 4·1.[8]

Rise in Interest

If this was the fate of the well-organized trades covered by the inquiry, it is safe to say that workers less well organized, or with no trade unions at all, fared much worse. Now this change from a downward course of prices to an upward course, from a rising standard of living to a falling standard, coincided with the concentration of capital, the decline of competition, price fixing, and the restriction of output by capitalist combinations. It is of the highest significance in this connection that while wages

[7] *Report*, pp. lv, lix, vii. [8] *Ibid.*, p. lix.

were falling interest on capital was rising. For more than thirty years prior to 1896 the rate of interest on current investments in consols and first-class debentures in this country fell steadily, but between 1896 and 1912 they increased by at least 25 per cent.[9] This rise in interest was in part due to the great demand for capital at that period in newly developing countries—notably South America and also South Africa and Canada; but a factor of first importance was undoubtedly the decline of competition by capital for employment owing to the concentration of its control in fewer hands.

Increased Power of Employers

And not only was Capital combining by amalgamating competing concerns and making agreements between nominally independent undertakings, but capitalists were also forming an increasing number of employers' associations for the purpose of resisting

[9] Hobson, *op. cit.*, p. 124, quoting R. A. MacDonald, *Statistical Journal*, March 1912. The rise in industrial profits for the seven years preceding the war may also be noted. Since 1908 the *Economist* has published an annual review of profits and a comparison with those of the previous year. The following figures are taken from these articles. The number of companies refers to those whose balance sheets had been analysed for the purpose of the comparisons. Increase or decrease is per cent.

Number of Companies.	Year.	Increase (+) or Decrease (−) in Net Profits on Previous Year.
250	1907	+ 1·27
245	1908	− 12·0
775	1909	− 7·0
775	1909–10	+ 11·4
774	1910–11	+ 8·6
867	1912	+ 3·4
993	1913	+ 15·4
909	1914	+ 0·9

The profits are net profits after the payment of debenture interest. The *Economist* noted, when discussing the returns for 1910–11, that "Lever Bros., thanks to amalgamations, are still piling on their profits at the rate of £70,000 a year." Writing of the returns for the following year, and referring to the Imperial Tobacco Company, it said: "The continuous prosperity of this Combine, with its 30 per cent. dividend, is a standing refutation of the theory that trusts cannot flourish in Great Britain, but the directors must understand the science of organization a good deal better than those responsible for most of our English Companies." See *Economist*, April 8, 1909, January 15, 1910, January 7, 1911, January 6, 1912, April 12, 1913, January 24, 1914, January 9, 1915. It should be pointed out that the figure given above for 1914 is based on reports which mostly dealt with the pre-war period.

the claims of the trade unions. In the conflicts of industry the power of Capital relatively to that of Labour increased. Thus a situation was created in which, on the one hand, the workers found it more difficult to enforce claims for higher wages or to defend their wages against attack, and, on the other, whatever wages they received were lessened by the rising prices brought about by capitalist productive or trading combines. To put it another way: the capitalist who employed the worker gave him less money for his labour, and for that money the capitalists on whose goods he spent it gave him a smaller quantity of goods in exchange for it.[10]

Gold in Relation to Prices

Among other factors which may affect the course of prices is fluctuation of the gold output. The extent of this influence and the way in which it operates have been the subject of much controversy. Some economists have held that the great increase in the output of the gold-mines towards the close of the last century, owing to the invention of what is known as the cyanide process of extracting the gold from the ore, was the chief factor in raising prices. However that may be, the importance of the influence of capitalist combinations would be in no way lessened, for if increased output of gold causes a rise in prices, the rise will be all the greater where capitalist combinations (which admittedly exist and are increasing) are at work. To put this another way, a rise in prices due to the greater gold output must be a

[10] Mr. Hobson, after treating of the demand for capital abroad as a factor in causing the rise in interest, says: "Part of the rise in interest and profits is probably thus explained. But not the whole. In some countries it is manifest that the high earnings of large masses of industrial and commercial capital are due, not so much to what may be termed a natural scarcity, as to the limitation of competition between the owners of capital, i.e. the organization of industry for limiting output, maintaining profitable prices, and bargaining with labour. Part of the rising interest and profits are due to the establishing over large markets of prices above the level which free competition would have maintained" (*op. cit.*, p. 127). Some influence on prices must also be attributed to the drain on natural resources. The price of wheat rose from 22s. 10d. per quarter in 1894 to 34s. 11d. per quarter in 1914, and, discussing this, the Committee on National Debt and Taxation (the Colwyn Committee) states: "It is no doubt true that the virgin soils which were once available for the purpose of 'dirt cheap' production of wheat now require more intensive and therefore more expensive cultivation; that in certain countries, owing to the rise in the standard of living, there is greater consumption of bread; and that India, China, and Japan have recently exhibited a growing demand for wheat." These facts "form part of the explanation of the rise in price."—*Report*, pp. 75, 76.

general rise consequent on the decreased value of gold—the universal medium of exchange in countries with a gold standard—in relation to the commodities with which it is exchanged. But such a *general* rise in prices would in no way prevent a particular rise on the top of it in, say, the cost of meat owing to the operations of the meat trust, or the price of building materials forced up by one of the rings in that industry. A further point of great importance in this connection is the immense increase in recent years in the use of all forms of paper money, which has largely undermined whatever influence the quantity of gold ever had on prices.[11] In any case, of the various influences bearing on the rise in prices that of the combination of capital is the only one which has continuously increased, and at an ever more rapid pace, since the upward trend of prices began about thirty years ago.

When account has been taken of all the factors related to the rise of prices *what emerges beyond cavil is that increasing and unregulated output, and competition between producers, was the predominant, characteristic feature of industrial operations for the greater part of the nineteenth century, and that the reverse is the case in the twentieth century.* The fact of the rise in prices and the fall, or, at best, precarious maintenance of the standard of life of the people in pre-war days, is undeniable. It is clear that competition either fails to have the effect attributed to it by the defenders of Capitalism or is ceasing to operate. The fact is that competition, however great or little may be its virtues, has now largely disappeared from the industrial sphere, and

[11] "The cost of production of money is a negligible factor in its price. If a farmer is bid £1,000 for his crop, his answer will be strongly influenced by the amount of work and capital that have been spent on producing it, and will be required for producing another; when a banker is bid 4 per cent. for a loan of £1,000 for six months . . . the sum that it will have cost him or somebody else to produce that £1,000 will hardly enter into his calculation; for it will be merely a matter of cheque drawing and book entries involving a certain amount of penmanship, and whether the loan is for £1,000 or for £1,000,000 will make little difference—very likely none at all—to the cost involved to the producer of it. It was quite otherwise when money consisted of metal that had to be dug out and treated; but now that money is a matter of book entries and pieces of paper . . . brought into being according to the varying views of bankers, as to how much may be based on a given quantity of gold—the supply of money can obviously be multiplied without any question of cost, so long as borrowers have security to offer, and bankers are prepared to make book entries."—Hartley Withers, *The Meaning of Money*, 1911, p. 233. A work laying emphasis on the influence exercised by gold on prices is Karl Kautsky's *The High Cost of Living*, and one laying most stress on other factors Mr. Hobson's *Gold, Prices and Wages*.

becomes of less account with every year—indeed, I think it may be said with every month—that passes.

Beginnings of the Trust Movement

It has already been pointed out that no specific time can be fixed as that at which the era of the combination of capital began, but by the beginning of the eighteen-eighties the movement had well started in both its aspects—the amalgamations of large undertakings, and the forming by separate undertakings of associations for the purpose of increasing profits by eliminating competition. The International Steel Rail Makers' Association was formed in 1884, for the purpose of partitioning the markets of the world among the members, and four years later there appeared the Salt Union, Ltd., which had a capital of £4,000,000, and bought up sixty works with the object of getting higher prices by lessening competition. The Bedstead Makers' Alliance and other similar associations in the light-metal trades were formed about 1890, and these were followed by kindred organizations in the dyeing trades of the West Riding. Although most of these had disappeared about ten years later, they did so for a short time only. New and more successful attempts at combination, as we shall see, were made. Competition in the cement industry having become too keen to ensure satisfactory profits, the Associated Portland Cement Manufacturers, Ltd., was organized in 1890. It had a capital of £6,813,944 at the start, and purchased the undertaking of twenty-seven firms.

Combinations and agreements among railway companies and steamship lines date from a much earlier time. At least since 1870 there has been no competition in fares and rates between the principal railway companies. The number of companies was steadily reduced, and between those remaining working agreements were made. In 1843 there were 70 railway companies in Great Britain with an average mileage of only 30 miles; by 1872, out of 11,000 miles of railway 16 companies owned 9,500; and by 1907, 13 companies possessed 14,000 miles out of 15,800.[12] To-day the number of companies has been reduced to four. Amalgamation took place because competition played havoc with

[12] W. A. Robertson, *Combination Among Railway Companies*, pp. 4, 21.

profits. Paid-up railway capital issued between 1845 and 1853 amounted to £54,000,000, which in the latter year was worth only £18,000,000.[13] Towards the close of the nineteenth century working expenses had so increased that it became "necessary for those responsible for the working of the great companies to put their heads together to see what could be done to stop this alarming decline in profits."[14] Railways are not, of course, in the same position as ordinary capitalist undertakings. They are under various legal restrictions and obligations which do not apply to the ordinary traders. All the amalgamations have had to receive the sanction of Parliament, and the various Parliamentary Committees have reported generally in favour of amalgamation, their view being that the evils to which it was anticipated fusion would give rise had not materialized. For all that, however, the steady concentration of railway capital does illustrate, on the one hand, that competition is abandoned by capitalists as soon as it ceases to pay, and, on the other, that the absence of competition and the pooling of resources, so far from decreasing efficiency and leading to that "stagnation," owing to the lack of competitive "stimulus," of which we hear so much, actually means greater efficiency and a more economical use of resources. But the motive is greater profit, and the whole of the greater economy and efficiency will be bent to securing that end. The public may, or may not, benefit; it has to take its chance.

Side by side with this amalgamation of railway companies grew up the system of "conferences" which agreed on common rates and fares for all the nominally competing undertakings within the conference. Steamship companies used the same method of preventing freights and fares being cut too low by competition. By offering rebates to shippers who did not deal with steamers outside the ring they exercised powerful pressure to keep traffic to themselves.

THE TRUST MOVEMENT AT THE CLOSE OF THE WAR

Our purpose being not to trace in detail the growth of capitalist combinations, but to demonstrate the extent to which competition

[13] W. A. Robertson, *Combination Among Railway Companies*, p. 14.
[14] *Ibid.*, p. 22.

has declined, and is continuing to decline, it will be sufficient to say that the movement which began in the last quarter of the nineteenth century, of which a few examples have been given, had enormously extended by the time the world war broke out, and that the war itself gave impetus to this phase of economic development.

Report of Committee on Trusts

The position at the close of the war is summed up in the quotation from the report of the Committee on Trusts, printed at the head of this chapter—that trade associations and combinations were to be found in *every important branch* of industry in the United Kingdom, that they were rapidly increasing and were tending to obtain a paramount control over all important branches of trade. This Committee was appointed by the Ministry of Reconstruction in February 1918, and reported in April 1919.

The Committee found that in the iron and steel industry there were the following associations, "all of which are definitely known or believed to be engaged in the regulation of price and output":—

Pig iron	.. ..	5 associations	embracing	41 firms.
Steel	.. .. ..	3 ,,	,,	25 ,,
Rolled products	..	7 ,,	,,	82 ,,
Steel castings	..	1 ,,	,,	20 ,,
Forgings	.. ..	3 ,,	,,	34 ,,
Bar iron	.. ..	4 ,,	,,	29 ,,
Iron	.. .. ..	3 ,,	,,	Unstated.

In branches of the industry which do not fall into any of the above categories were the Iron and Steel Wire Manufacturers' Association (29 firms), and the British Tube Makers' Association (32 firms). Seven other associations are enumerated in the report, and the list of the whole does not purport to be at all exhaustive.

"The makers of iron castings used in domestic buildings are grouped in a powerful association embracing 90 per cent. of the industry." One association comprised all the galvanized sheet-iron manufacturers and another four-fifths of the metal-bedstead makers. Besides these associations of firms—which except for

the carrying out of objects of the associations are independent—the iron and steel industry had an increasing number of great consolidations. Some of these were mergers of firms engaged in the manufacture of similar products—the "horizontal" consolidation—and others fusions of concerns situated at different stages of the productive process, such as coal, pig iron, steel, and structural marine engineering—the "vertical" consolidation.[15] In the chemical industry production was found to be almost wholly in the hands of the two great consolidations. In soap, tobacco, wallpapers, salt, cement, and in the textile trades there were "powerful combinations of one or the other kind which are in a position effectively to control output." In the electrical industry there was an association of businesses with a total capital of £33,000,000.

Methods of Price-fixing

The aim of all these various associations, combinations, and consolidations is to increase profits. To this end they work in various ways. The simplest form of activity consists merely of securing an honourable understanding, a "gentlemen's agreement," that goods shall not be sold below a certain price. This the Committee found to be a common feature of local trade. The fixing of prices by coal merchants is an example of it. Formally organized associations, on the other hand, eliminate competition by partitioning among their members the home and foreign market and by price-fixing. Associated with the fixing of prices is the regulation of output, a percentage of output being allocated to every firm in the association. Firms which then exceed their quota of output pay a definite percentage to a pool, and from this pool concerns which have produced less than their quota may draw in proportion.

Preventing Competition in Tenders for Contracts

The competition which is popularly supposed to be involved in tendering for contracts is often eliminated by trade associations.

[15] At the close of the war one-quarter of the steel plants of this country represented more than three-quarters of the total productive capacity; in pig iron, one-fifth of the concerns represented well over one-half of the productive capacity.—*Economist*, December 22, 1923.

In some cases the tenders are submitted to the association before they are sent in. A percentage is then added to every estimate, and this, when the contract is placed, is paid to the association and divided among the tendering firms. In other instances it is agreed that all the firms in the association shall quote the same price. When this is done the firm receiving the contract pays an agreed percentage to the association.

The Committee on Industry and Trade appointed by the Government in 1924, and known as the Balfour Committee, in its third report issued early in 1927 gave the following description of "Associations for Allocating Contracts" (italics mine):—[16]

> Such associations exist in certain industries where work is allotted by tender. The association *decides which firm is to receive a particular contract, and it is arranged that other firms either do not tender or tender high.* In some cases it is arranged that the members of the associations shall each be allotted a particular area.

The efforts of combines to prevent competition when tendering for contracts were brought into the public gaze in April 1927 by the Southern Railway Company, in a statement which it issued to the Press in justification of its having placed a contract with a Swedish firm. The company stated that it had always been its policy to place orders whenever possible with British firms, but on occasion "the maintenance of this policy has been rendered difficult by the existence between electrical manufacturers of agreements which *have enabled them to fix and quote identical prices*" (my italics). For the electrification of lines to be undertaken in this instance the company stated that it had invited tenders from the same three British firms which had supplied the rotary converters for the Eastern section of its suburban area in the previous year. Of the sequel the company gave the following description:—[17]

> The response to this invitation was an offer by two of the firms jointly to supply only 14 machines out of the 23 required; one of the firms declining to quote without giving any reason.
>
> The offer of 14 machines was subsequently increased to the full 23, but only on the added condition that the contracts for the balance of nine machines should be post-dated to November next.

[16] *Third Report: Factors in Industrial and Commercial Efficiency*, p. 71.
[17] Quoted from *Daily Herald*, April 20, 1927.

This appeared to indicate the existence not only of a price agreement, but also of some sort of quota arrangement, restricting the output of individual firms—or, in effect, dictating to the company the source of supply.

In these circumstances the company had no alternative but to find a contractor who was prepared to meet their full requirements on reasonable terms and conditions, and they were reluctantly compelled to turn to Continental manufacturers.

Municipalities have had experience precisely similar to that of the Southern Railway.

Output required for Effective Monopoly

Almost all the associations and combinations which came within the purview of the Committee on Trusts controlled not less than 80 per cent. of the output of their respective industries—a proportion sufficient to give an effective monopoly. Severe pressure can be brought to bear to keep trade in the hands of a combine. A common means is the use of the rebate, which we have already noticed in connection with shipping. At the end of six or twelve months customers are offered a return of 10 to 15 per cent. on their purchases, providing they have not in the meantime done business with firms outside the combine. Another method is to refuse to buy semi-finished products from manufacturers unless they supply only the combine. A further practice is to make agreements with retailers to handle only the combine's goods.

These are some of the methods by which combines retain their grip on the supply, and so maintain the prices they have fixed; and these prices are, of course, fixed at a level which will enable the least efficient firm in the combine to pay its way. If such a firm gets what would be termed a reasonable profit, then the large firm with better plant and organization must reap an excessive profit. Capitalist combinations charged with thus victimising the consumer are wont to plead that their price level cannot be unreasonable as all demand for their productions is met. This is begging the question. It may be true so far as the *effective* demand is concerned—the demand of the people who can afford to pay the price—but that is not to say that there

would not be an enlarged demand if the price were lower. The Committee was "unable to share the optimism of those representatives of associations who were of opinion that, under no circumstances, would their operations lead to excessive prices or to the detriment of the public."[18]

American Meat Trust's Power

The Committee was confirmed in this view by a survey of combinations in other countries. It pointed, for example, to the American Meat Trust: the Big Five—Armour & Co., Morris & Co., Swift & Co., Wilson & Co., Inc., and the Cudahy Packing Company—which, besides its control of meat, had also a measure of control over meat substitutes, such as eggs and cheese. The report of the Federal Trade Commission on the meat-packing industry, which was issued at Washington in July 1918, revealed a "definite and positive conspiracy" on the part of the Big Five "for the purpose of regulating prices of livestock and controlling the price of meat." The profits of this Trust in 1917 were more than four times the average of the years before the war, although their sales in dollars and cents, at even the inflated prices then prevailing, had barely doubled. To make its position still stronger the Big Five had financial connections with meat trade companies in South America, New Zealand, Canada, Great Britain, Germany, France, Italy, Denmark, and Australia. No fewer than fifteen of these companies were in Great Britain.[19] The Federal Commission's summing-up of the power of the Meat Trust may be here given as an illustration of the dictatorship to which the consolidation of capital may lead. It says:—

> If these five great concerns owned no packing plants and killed no cattle, and still retained control of the instruments of transportation, of marketing, and of storage, their position would not be less strong than it is. The producer of livestock is at the mercy of these five companies

[18] *Report*, p. 8.

[19] Those named in the report of the Committee on Trusts (pp. 9 and 10), quoting the Federal Commission's Report, are: Allen & Crom (Ltd.), Armour & Co. (Ltd.), Fowler Bros. (Ltd.), James Wright & Co., Times Cold Storage Co., Cudahy Packing Co. (Ltd.), Morris Beef Co. (Ltd.), Haarers (Ltd.), Libby, McNeill & Libby of London, Curry & Co. (Ltd.), Garner, Bennett & Co. (Ltd.), H. Lane & Co. (Ltd.), H. L. Swift Stall, Franklin Land and Investment Co., Swift Beef Co. (Ltd.), Nuttall Provision Co. (Ltd.).

because they control the market facilities and, to some extent, the rolling stock which transports the product to the market.

The competitors of these five concerns are at their mercy, because of their control of the market-places, storage facilities, and the refrigerator cars for distribution.

The consumer of meat products is at the mercy of these five concerns because both producer and competitor are helpless to bring relief.[20]

The size of a combine is its own protection. Theoretically, the field is open to all. What, it may be asked, is there to prevent a rival to a big combine entering the field? Here is the answer based on the evidence given before the Committee on Trusts, and which epitomizes the strategic position of the Trust and Combination:—[21]

A powerful combination must be far gone and the capital at the disposal of the new-comer must be large before an attempt at setting up a rival establishment can be made with reasonable prospect of success. A combination can fortify its position against intruders. It can come to terms with merchants or retailers that they shall not handle any but its own goods, and enforce those terms by conditional commissions and deferred rebates. It can go out to attack with "special fighting lines" anyone who tries to interfere with its trade and drive him out by undercutting, or compel him to join the combination and conform to its schedule of prices.

But what of foreign competition? Does it not act as a check on the rapacity of capitalist combinations? It would be idle to deny that to some extent foreign competition does so, but it would be equally idle to deny that this check was steadily weakening long before the war, and that in many vital industries it is rapidly becoming of little or no account, even if it has not completely disappeared.

International Combines

The Committee on Industry and Trade states that the formation of international cartels—that is, agreements between separate and nominally independent concerns for regulating output and

[20] p. 10. For some details of the enormous profits, running into hundreds per cent., of American Trusts, see Herman Cahn, *Capital To-day*, 1915, ch. xi. Between April 1, 1901, and December 31, 1913, the Steel Trust paid more than £100,000,000 in dividends (546,000,000 dollars).

[21] Appendix by Secretary, Mr. John Hilton, p. 24.

the joint selling of products, or the allocation of particular markets to particular countries—and of international trusts "was a marked feature of the twenty years immediately preceding the war," and that it has been estimated that before the war there were about 114 international cartels, distributed as follows:—

Transportation	18	Coals, ores, metals ..	26
Stones and earth	6	Electrical industry ..	5
Chemical and allied industries ..	19	Textiles	15
Stoneware and porcelain ..	8	Paper	7
Miscellaneous	10		

This was the position before the war. In its investigation in 1918 the Committee on Trusts found that associations of British manufacturers had come to terms with British merchants under which foreign goods, whatever their price, were shut out. "In the case of more than one British consolidation the ramifications of the firm are so wide throughout the world that any question of foreign competition in the home market is meaningless."[22]

An example of an organization designed to check foreign competition is the International Rail Makers' Association, which, as already noted, was formed so far back as 1884. The members of the association had allocated to them certain markets to which alone exports might be sent. Every country undertook not to quote for work in a country allocated to another group. In 1912, when the association was renewed until 1915, the quotas were: British 33·6 per cent., Germany 23·13 per cent., Belgium 11·11 per cent., France 9·0 per cent. Under this arrangement British makers were gradually restricted to British Colonial markets. The average annual orders from British makers for places other than the United Kingdom and British Possessions fell from 257,000 tons for the period 1901–5 to 56,000 tons for the period 1911–14, their average annual orders for all markets having declined only from 917,000 tons to 646,000 tons.

Another international combine is the European Association of Glass Bottle Manufacturers. This association made an agree-

[22] Appendix by Secretary, Mr. John Hilton, p. 26. It must be remembered also that the Conservative Party's policy is to check foreign competition by tariffs. This Party is to-day the dominant political representative of Big Business, and with the disappearance of the Liberal Party will be its sole representative.

ment under which Continental makers undertook not to sell bottles in the United Kingdom at less than the price fixed by the British Association of Glass Bottle Manufacturers. It was alleged that the agreement had been evaded and large contracts in this country secured by Continental firms at what, in effect, were prices lower than those which ruled in this country. However that may be, the imports of glass bottles at the outbreak of war were only the same amount as in 1907, although before that year German and Austrian manufacturers had been making considerable inroads in the British market. One has only to reflect what a great number of necessities of the people are sold in glass bottles to see what a variety of commodities have their prices affected by this capitalist plan to cut out competition and keep up prices.

A further example of the elimination of foreign competition is supplied by the tobacco industry. In 1901 the American Tobacco Company, which dominated the manufacturing side of the industry in the United States, decided to extend its operations to this country. For that purpose it bought up Ogden's, Ltd., for five million dollars. As a counter-stroke thirteen of the most important British companies formed the Imperial Tobacco Company. Fierce competition ensued—so fierce that after a year an armistice was called and the upshot was a peace treaty. The American Tobacco Company agreed to do no business in Great Britain, and the Imperial Tobacco Company undertook not to manufacture or sell tobacco in the United States, its dependencies, or Cuba. The two companies then formed a third company, the British-American Tobacco Company, to exploit all the markets outside the United States and Great Britain.

Such is a brief sketch of the position at the close of the war, as revealed by the Committee on Trusts. Its Report was unanimous, but it is noteworthy that four members of the Committee issued an addendum in which they said that, while they found nothing to disagree with in the Majority Report recommendations, "it does not adequately express the gravity of the situation." They added:—

> The fact is that free competition no longer governs the business world. The common assumption that the rivalry of traders affords a guarantee that the price of commodities will oscillate closely about the necessary cost of production—whatever may have been its degree of truth in the

past—is now, in this country, nowhere to be relied upon. It is nowadays open to doubt whether we ever buy anything at the cost of production. We find that capitalist combination in one form or another, and at one or other stage of production, transportation, and distribution, now loads in varying degrees the price of practically everything that we purchase.

THE TRUST MOVEMENT SINCE THE WAR

The Milk Combine

No reference has so far been made to agriculture, but this, the most vital of all industries, has not been passed by in the march of the Combine. In agriculture there is a "tendency to form large business units to handle produce," and "the position of the farmer as a seller and the retailer as a buyer is bound to weaken as consolidation proceeds."[23] So far as milk is concerned, this "tendency" has become an established fact. In 1915 United Dairies, Ltd., was formed with a capital of £1,000,000. It first acquired wholesale businesses, and in 1917 began to swallow retail concerns. Its capital was then £2,300,000, but by 1920 had risen to £3,280,000 through the absorption of numerous other companies and private traders. By 1923 the capital stood at £4,000,000. The Combine then controlled not less than 65 per cent. of the milk supply of London—the amount had been estimated as high as 80 per cent.—it handled one-third of the retail trade of London and one-twelfth of the milk supply of the United Kingdom. In London it was the arbiter of price, the "competition" of small traders being a mere fiction.

Small Traders not Effective Competitors

In this connection the Departmental Committee—known as the Linlithgow Committee—makes a very illuminating comment which should give pause to those who imagine, as they walk down the streets past the shops, that every shopkeeper is effectively competing with every other shopkeeper of his kind and with the shops of big combines. The Committee stated that in 1922 United Dairies

[23] *Departmental Committee on Distribution and Prices of Agricultural Produce, Final Report,* 1924.

could have sold milk at a lower price than it actually fixed, but did not do so as the effect would have been to drive out of business the small retailers. The Committee adds:—[24]

> It has long been customary for large business amalgamations to seek to preserve in their own interests the small trader whose operative costs are necessarily heavier in relation to the volume of business. He assures for the big combine both "cover from view" and "cover from fire." . . . It is true that he is usually left the least remunerative portion of the trade, and that his continued existence seems to be satisfying to public opinion, *but to imagine that he is effective as a competitive agent is fallacious.* (Italics mine.)

Similar comment is made with regard to the meat and bread trades. A "striking feature" in them is the large number of small retail establishments. Many bakers in large cities handle less than ten sacks of flour a week, and a considerable number of butchers do no butchering themselves but buy meat in small quantities. It might be supposed that the competition of all these shops would be sufficient protection to the consumer from combinations which exist in the meat, milling, and baking trades, but this is not the fact. The "excessive costs" of a large proportion of these small businesses make it impossible for them to cut prices. "*It is a mistake to suppose that in the average circumstances they affect the operations or the margins of the larger retailers.*"[25]

Restrictions on Merchants and Retailers: Cement

A closer view of the operations of certain combines is provided by the reports of the Standing Committee for the Investigation of Prices and the Standing Committee on Trusts appointed under the Profiteering Acts of 1919 and 1920. Take cement—vital for building and all kinds of constructional work. We have already noted the existence of the Associated Portland Cement Manufacturers, Ltd., closely linked with the British Portland Cement Manufacturers, Ltd. These two associations and others in the Cement Makers' Federation in 1919 controlled 90 per cent. of the output—in other words, had a virtual monopoly. The

[24] *Interim Report, Milk and Milk Products.*
[25] *Final Report.* (Italics mine.)

issued capital of the Associated Portland Manufacturers in 1919 was no less than £8,556,291. The British Portland Cement Manufacturers controlled six companies in the Federation, and had eight votes out of twenty-six in the Board. The Federation fixed minimum prices, and the observance of these was a condition of sale to merchants. At that period there was a great demand for building material, and according to the theory of the apologists of Capitalism this should have had the effect of causing a fall in the price of cement and preventing any undue exploitation of the public, but the existence of the Cement Makers' Federation, its control of output, and the methods it used to keep up prices show that here we have an instance in which the capitalist argument bears no relation to the facts of to-day.

Then there was the Greystone Lime Burners' Association, Ltd., formed in 1911. It came into being because "competition had reduced the industry to a deplorable state, and co-operation was adopted as a means of stabilizing prices and selling arrangements." The association owned in 1919 almost the whole of the quarries opened up in England. It protected itself against outside competition by granting special terms to merchants who traded exclusively with it—a system which impelled the Standing Committee to remark that the consumer needed to be safeguarded by having the option to buy large quantities direct from the manufacturers. To any concern not in the association "the merchants' trade would be in a large degree lost."[26]

Electric Lamps

The same methods were found to be used by the Electric Lamp Manufacturers' Association of Great Britain, which could "exclude the non-associated manufacturers from all but the fringes of the trade." Firms which sold other than the association's lamps were placed on a special list, known as the "black list," and supplies were refused them. Although the non-associated firms could sell lamps at a profit cheaper than the Electric Lamp Manufacturers' Association, the association controlled so large a proportion of the output that the outside firms were not an effective competitive check on price. The outside

[26] *Report: Cement and Mortar*, pp. 4, 5, 13, 14, 17.

firms relied largely on sales to large consumers, such as public authorities with whom they dealt direct. The Committee reported that the standard vacuum lamps, which at the time—1920—were being sold at 3s., could be sold at 2s. at a satisfactory profit to the manufacturer and distributor. In 1919 the association purchased in Holland one and a half million "half-watt" (gas-filled) lamps for about 3s. apiece, and sold them to the British public at 12s. 6d. apiece, though they could have been sold at a profit at 8s.[27]

Sewing Cotton

J. & P. Coats, Ltd., have a virtual monopoly of the sewing cotton trade in this country. They, too, use the method of tying down the retailers by agreements. The shopkeeper undertakes that if he sells any other cotton than Coats's he will make the same margin of profit on it. Thus he is prevented from buying cotton which might cost more, but which, by taking less profit, he could sell at the same price as the cotton of Coats's. This, the Standing Committee reported, "renders it extremely difficult for other manufacturers of sewing cotton to obtain a footing in the market." If the retailer breaks the agreement Coats's will do no more business with him, and his main source of supplies are thus cut off.[28] It is true that the Committee reported that the price of tenpence for a reel of cotton, which prevailed at the time of their investigation, was not unreasonable in view of the high costs of production at that period. This may be so, but the power of the Combine remains. Tenpence a reel may have been a fair price in that exceptional period, but in new conditions half that figure may be very unreasonable, but the Combine would have power to demand it.

Small Firms exist "on Sufferance"

The existence of private monopoly or quasi-monopoly is always a menace, even though, at a given time, it may not be operating to the detriment of the consumer. The point is well made in the Standing Committee's report concerning the tobacco

[27] *Report: Electric Lamps*, pp. 6 and 9.
[28] *Report: Sewing Cotton*, pp. 7 and 8.

manufacturing industry. The Imperial Tobacco Company of Great Britain and Ireland controlled two-thirds of the trade, and the Committee reported that, generally speaking, its activities had been beneficial to both the retailer and the consumer. But, they added, "we cannot ignore that the policy of the Imperial Tobacco Company might be changed." A representative of one of the oldest firms in the trade said to the Committee, "We exist only on sufferance"; and the Committee noted that the Imperial Tobacco Company might by foregoing profits for a short period cut out its rivals.[29]

Rise of the "Big Five" Banks

Note must now be taken of what, in its latent possibilities for evil, is the most important of all the concentrations of capital—that of the banks. Between 1891 and 1922 the number of joint-stock banks was reduced from 106 to 30, and the number of private banks from 30 to 2. Of the 30 joint-stock banks 5 held deposits amounting to £1,733,769,000, while the remainder held between them only £369,000,000. The five were what is known as the Big Five and the number of banks which they severally have absorbed is as follows:—[30]

	Banks.
London County Westminster and Parrs Bank	60
London Joint City and Midland Bank	65
Lloyds Bank	119
Barclays Bank	102
National Provincial and Union Bank of England ..	65

After the Act of 1826 permitting the formation of joint-stock banks outside London the number of such banks steadily increased. The following table, prepared from figures given by Mr. Easton,[31] illustrates the contrast between the growth in the number of banks until 1865 and its decline since 1891:—

Number of Joint-Stock Banks.

1830, 10; 1865, 102; *Increase*, 92.
1891, 106; 1923, 30; *Decrease*, 76.

[29] *Report: Tobacco*, p. 6.
[30] H. T. Easton, *History and Principles of Banking*, 1924, Preface and pp. 281, 282, 283.
[31] P. 60. (It must be remembered also that the joint-stock absorbed the private banks, of which there were at one time a large number.)

This process is very good for the banks. Normally, it means "an increase in the opportunity for profit, a lessening of the expenses in proportion to the business done, a diminution of the risk of failure, and an increase in the rate of return on the shareholders' capital";[32] but to the community it is a menace. Modern industry is largely based on credit, and the control of that credit is now the monopoly of a handful of bankers. There is here but little effective competition operating to prevent the imposition of unnecessarily onerous terms on the public. That the interests of the banks and the community at large may be opposed one to the other was proved during the industrial slump which followed the brief post-war boom. The contraction of credit—deflation—was a highly profitable proceeding to the banks, which paid very high dividends at a time when the unemployed numbered anything from a million and a quarter to two millions, when many industrial enterprises were suffering heavy losses, when poor relief reached record heights, when wages were lowered all round, and the great mining community, after a display of valour unparalleled in the industrial annals of the nation, was beaten to its knees and forced, under a dictated "peace," to an even lower level of poverty than it had suffered before.

Railways and Shipping

Of the decline of competition in the past five years it may be said that the process has gone on at an ever-accelerating speed. Not only have the railways now been reduced to four companies, but competition is being rapidly eliminated among shipowners. By the Railways Act of 1921, under which the four companies were formed, the companies were prohibited from pooling receipts or allocating traffic and thereby still further restricting competition. As to the value of this prohibition and the likelihood of the survival of any effective rivalry between the four groups, it has been observed on excellent authority—[33]

Whatever legal restrictions may be placed in the way of formal agreements, however, the fact remains that the companies can, as in the past,

[32] Sidney Webb, *Contemporary Review*, July 1918
[33] *Statist*, February 23, 1924.

eliminate competition and adopt a common course of action by means of technical understandings which are not agreements in the legal sense and have no legal status. In any case, the various provisions of the Railways Act compel the companies to co-operate so closely with one another that competition in the ordinary sense can hardly survive.

As to the shipowners, in 1923 no less than 8,200,000 tons gross, which was over half the total of British sea-going tonnage other than oil tankers and vessels owned indirectly by foreign interests, was possessed by six groups. These were as follows, the number of concerns in brackets being subsidiaries, except in the case of the Royal Mail Steam Packet, in which case the number includes allies as well as subsidiaries:—[34]

Royal Mail Steam Packet	(10 Lines, plus "other companies").
Cunard	(5 Lines).
Furness Withy Company	(10 Lines, plus "other companies")
Peninsular and Oriental	(9 Lines).
Ellerman Lines	(7 Lines).
A. Holt & Co.	(2 Lines).

The process of consolidation continues. While this chapter is being written, the White Star Line has been purchased from the International Mercantile Marine, an American concern, by the Royal Mail Steam Packet Company. Similarly, the issued share capital of United Dairies, which, as we have seen, was £3,280,000 in 1920, had, by the absorption of further businesses, risen to £3,451,241 in 1921 to £3,908,799 in 1922 and to £3,931,646 in 1923.[35] By 1923 the assets of the Associated Portland Cement Manufacturers totalled £10,750,000, and those of the British Portland Cement Association £4,750,000.[36]

Bread and Meat Combines

Of the combinations in the bread trade and the meat trade further evidence was forthcoming in 1925, in the Report of the Royal Commission on Food Prices. The Commission found that the price of bread was fixed by local associations of master

[34] *Statist*, January 12, 1924.
[35] *Economist*, October 20, 1923.
[36] *Ibid.*, November 10, 1923.

bakers, and that Co-operative Societies were frequently asked by these associations to raise the price of bread. The Co-operative Societies had "very often, owing to their refusal to act with the local master bakers, kept down the price of bread, to the benefit not only of their own members, but also of their rivals' customers."

Master Bakers' Associations, the Commission found, sometimes exerted pressure on bakers who refused to raise their prices to the required level. Evidence was given for Messrs. Harding & Sons, Ebbw Vale, that they had been selling bread for some years at a "handsome profit," although it was one penny the four-pound loaf lower than the price fixed by the local Master Bakers' Association. When they refused to raise their price "first one miller and then another ceased to supply them, and they were finally forced to obtain supplies of flour from a secret source." The Commission investigated Messrs. Harding's books and found their evidence completely substantiated. The flour supplies were cut off through the action of a joint body of millers and bakers known as the "Reference Board," and this was done, the Commission stated, "with the object of compelling the firm either to close their bread-making business or to raise their price." There was nothing to be said, declared the Commission, in defence of the Reference Board's action "which places a premium on inefficiency and destroys healthy competition. Where it is effective it stabilizes the price of bread at the highest level and places the baking trade in a privileged and monopolistic position."

The Commission also revealed that the National Association of Master Bakers, a short time previously, had tried to get the National Association of British and Irish Millers', Ltd., to insert in their contracts with bakers a clause under which all contracts would be cancelled if a baker sold bread at a price which showed less than a certain gross profit. This proposal, however, was rejected.[37] Reporting on meat the Commission stated:—

> Competition both in buying and selling has undoubtedly been affected by the recent amalgamation of several large multiple shop companies in the hands of the Union Cold Storage Company, Ltd. This Company, which is controlled by Lord Vestey and his brother, Sir Edmund Vestey, operates 2,356 retail shops which formerly belonged to Eastman's Ltd.,

[37] *First Report, Royal Commission on Food Prices*, pp. 28–31.

British and Argentine Company, the Argentine Meat Company, and a number of other companies and firms, and are still run under the names of their former proprietors.

Though the prices charged varied and were left to a considerable degree at the discretion of the shop managers, the Commission noted that "there cannot be the same competition between the branches themselves as there was when they were owned by separate companies. Moreover, the policy of the United Cold Storage Company has been to close down the less profitable shops, with the result that in many places the number of competing shops is less than it was when they were under separate control."[38]

The Commission found also that a large proportion of imported meat supplies are sold direct to the retailers by "a comparatively small number of importers doing a very large business." Armour, Swift, Morris, Sansinena, and the Union Cold Storage Company handled the greater part of the Argentine chilled meat and sold direct to the retailers from their own depots and market stalls. The markets and depots in the provinces were kept under "close supervision" from Smithfield, and the result is that they "cease to be independent markets where prices are determined solely by the free play of supply and demand."[39]

Progress of Combination in 1926

Many important consolidations of capitalist concerns took place in 1925 and 1926. In the autumn of the latter year Brunner Mond & Co., Nobel Industries, Ltd., the British Dyestuffs Corporation, and United Alkali, Ltd., united in Imperial Chemical Industries, Ltd., with an issued capital of £56,000,000 and an authorized capital of £65,000,000; the issue of the *Brewery Manual* for 1926 recorded that "amalgamations and mergers

[38] *First Report*, p. 97.

[39] *Ibid.*, p. 105, 106. In a Minority Report, Mr. W. R. Smith stated that the Union Cold Storage Company was founded in 1903 with a capital of £50,000 and one cold storage establishment. In 1925 it had a paid-up share capital of nearly £9,000,000, was allied to a dozen subsidiary companies operating in the Argentine and Australian trade, and owned about one-third of the cold storage facilities.

grow apace,"[40] and within a few weeks still another brewing combine was announced, Bass, Ratcliff & Gretton, Ltd., uniting with Worthington & Co., Ltd., the aggregate capital of the two firms being £5,000,000. In the tobacco industry, Godfrey Phillips, Ltd., which a few months previously had absorbed J. Milhoff, Ltd., acquired the business of Abdulla & Co., Ltd.; in retail trade, Selfridge's, which only a short time previously had formed a new company, Selfridge's Provincial Stores, Ltd., to control the provincial businesses which the firm for some years had been acquiring, bought up three more large businesses—Jones Brothers, Holloway; H. Holdron, Ltd., Peckham; and Barrett's, of Clapham—which, with nearly a score of other stores in various parts of the country acquired by Selfridge's, continue to be run under their former names, and may appear to the general body of the public, which does not follow commercial and industrial news, to be competing with one another.

Combination in Retail Trade

Apart from the spread of the Selfridge organization, the year 1926 saw the formation of the Drapery Trust, Ltd., which associated 26 firms having shops in 38 towns. Actually, 29 firms were connected with the Trust, for the Scottish Drapery Corporation, Ltd., one of its members, embraces Pettigrews & Stephens, Ltd., Glasgow, Patrick Thomson, Ltd., Edinburgh, D. M. Brown, Ltd., Dundee, and Watt & Grant, Ltd., Aberdeen.[41] How the rise of this Trust may affect the freedom of shop assistants and other shop workers is not difficult to realize, for it means a

[40] *Observer*, September 26, 1926.

[41] See London Press advertisements, June 12, 1927. Firms given as being associated with the Trust were Bobby & Co., Ltd.; Bobby & Co. (Southport), Ltd.; Bon Marché (Gloucester), Ltd.; Curl Brothers, Ltd., Norwich; Dawson Brothers (London), Ltd.; Edwin Jones & Co., Ltd., Southampton and other towns; Frank Drury, Ltd., Manchester; Frederick Fish & Son, Ipswich; G. Footman, Pretty & Co., Ltd., Ipswich; Gardiner & Co., Ltd., Ipswich; J. Howells & Co., Ipswich; Handleys, Ltd., Southsea; Jones & Co., Ltd., Bristol; Kennards, Ltd., Croydon; Wm. Lefevre, Ltd., Canterbury; Margaret Marks, Ltd., London; Marshalls, Ltd., Leeds and other places; Plummer Roddis, Ltd., Brighton and other towns; Selincourt & Sons, Ltd., London; Spooners, Ltd., Plymouth; Staddons, Ltd., London; Stagg & Russell, Ltd., London; Swan & Edgar, Ltd., London; Warwick House, Ltd., Birmingham; Wellsteeds, Ltd., Reading; Scottish Drapery Corporation, Ltd.

great narrowing of the field of employment with all that that implies.[42]

Recent International Combines

In the international field in 1926 the steel manufacturers of Germany, France, Belgium, and Luxembourg entered into a combination for the regulation of output, the allocation of markets, and other measures designed to increase profits. In January 1927 an international combine of artificial silk manufacturers was formed, Courtaulds, the leading English concern, making an agreement with the Glanzstoff Company, of Germany, and Snia Viscosa, of Turin, "for the purposes of technical and commercial collaboration between the three companies," which, being interpreted, means the pooling of knowledge as to processes and co-operation to secure as large profits as possible. These three companies were the pioneers of artificial silk, and the motive of forming the combine was undoubtedly to keep the field to themselves and squeeze out rivals which were springing up. The nominal capital of the three companies was at the time of the agreement estimated at something over £30,000,000. Courtaulds then had an issued capital of £20,000,000, but its market value was £80,000,000. Even this international pact did not itself illustrate the extent to which competition in the industry was being suppressed, for Courtaulds controlled the Viscose Company of America, then the largest producer of artificial silk in the world, and the Glanzstoff Company controlled the American Bemburgh Company.[43]

The latest official information published in this country as to the growth of capitalist combinations is that contained in the

[42] On this point the Committee on Trusts makes the following general statement: "Complaints were made that members of staffs of different combines which acted in associated circles are deprived of freedom of action when they desire to change from one firm's employment into the service of another which is in the same association. It was complained that, although the change might be desired by a man in order that he might improve his position, or for some equally good reason, by reason of the understandings existing between associated firms such an application for transfer could not be made without his employer's knowledge, and he might be thereby prevented from securing an appointment."—*Report*, p. 7. (Obviously, there is no implied reference here to the Drapery Trust, which was not in being when the Committee reported, but the Drapery Trust is the *kind* of organization in which this restriction on the employees' freedom was said by the Committee on Trusts to exist.)

[43] *Financial Times*, January 27, 1927; *Daily Herald*, January 28, 1927.

Third Report of the Committee on Industry and Trade. I append here some particulars which it gives of combinations not already mentioned or, if mentioned, of which further information is forthcoming:—[44]

TRUSTS AND COMBINATIONS EXISTING IN 1926 AND NOT HITHERTO MENTIONED.

BRITISH.

Saw Manufacturers' Association and Edged Tool Manufacturers' Association.

These represent "almost the whole output of those articles and secure uniformity of selling prices, while the Council of Small Tool Manufacturers controls about 75 per cent. of the trade, and has arrangements with the High-Speed Steel Association under which its own members receive discounts on exclusive buying from members of that association and in turn allow discounts to the Ironmongers' Federated Associations in return for exclusive purchasing."

British Cycle and Motor Manufacturers' Union.

This body "has agreements for the maintenance of prices, while the Motor Trade Association fixes prices for proprietary goods."

Washing Machine Makers' Association.

"Covers about 70 per cent. of the trade and has a complete system of price regulation and a pool."

Textile Machinery.

In this country "associations for price fixing have made considerable headway. In the manufacture of accessories for textile machinery the membership of associations is practically complete, but in the manufacture of textile machinery itself there are said to be important firms outside the associations."

Winding Engine Makers' Association.

Covers "about 70 per cent. of the output, does not control prices but has a pooling system and a system of reporting all prices on tender, a plan which is also followed by the Boiler Manufacturers' Association."

American Yarn Association.

Fixes prices for yarn in the Lancashire cotton industry and imposes

[44] *Third Report*, pp. 78–86 and 112–14.

penalties on firms which, being members of the association, sell below its minimum prices.[45]

Bleaching, Dyeing, Printing, and Finishing.

The Bleachers' Association, Ltd., established in 1900 "as an amalgamation of numerous firms, now dominates the bleaching of cotton piece goods; while the Calico Printers' Association, Ltd., another amalgamation formed in 1899, comprises an important part of the calico printing industry. The Bradford Dyers' Association, Ltd., constituted in 1898, controls a large percentage of the Bradford piece dyeing trade; the British Cotton and Wool Dyers' Association controls a very large number of firms . . . and the English Velvet and Cord Dyers' Association, formed in 1899, covers a large part of the dyeing and finishing processes of velvets, cords, etc. These associations are not voluntary associations of independent manufacturers, but are limited liability companies directly engaged in the printing, dyeing, and so forth. In most cases there is also an association (in the ordinary sense) of which the trust is a member. For example, the Calico Printers' Association is a member of the Federation of Calico Printers, which is a price-fixing terminable association. The Federation was formed during the war, and covers about 90 per cent. of the output of calico prints."

Proprietary Articles Trade Association.

"Controls *some* 5,000 *proprietary articles* (my italics)—drugs, patent medicines, fancy toilet goods, etc.—sold in chemists' shops. The association fixes prices for the manufacturer, for the wholesaler, and for the retailer. Those dealing in the articles concerned sign an agreement to adhere to these prices, and supplies can be withheld from anyone selling at less than the fixed price. . . . The example of this association has prompted the establishment of a similar association to deal with proprietary articles in the grocery trade."

British United Shoe Machinery Company.

A subsidiary of the American United Shoe Machinery Company. It leases machinery to boot manufacturers. "The company refuses to sell its machines over which it has a monopoly based on the possession of patent rights, and it agrees to lease the machines only on conditions aiming at the suppression of the use of machines of other makers."

Pottery Industry.

Here "associations exist in practically every branch, which control selling prices of such articles as are of common design and use." In the domestic glassware industry the manufacturers are combined in two associations, which regulate selling prices.

[45] On August 12, 1926, a firm was fined £300 for this breach of rule. It "made known its intention to pay the fine and not to repeat the offence," and in view of this its name was not revealed.—*The Times*, August 13, 1927.

Matches.

"A consolidation of interests among British manufacturers has taken place in recent years, Messrs. Bryant & May having acquired a number of match factories. The company are said to maintain friendly relations with the Swedish Match Trust."

Soap.

The United Kingdom Soap Manufacturers' Association established in 1914 represents about 80 per cent. of the total output of soap in the United Kingdom. Both the manufacturers' price and the retail minimum price is fixed. Manufacturers outside the association usually follow the prices of the association, except the Co-operative Wholesale Society. The association is dominated by Lever Brothers, Ltd., "who produce 90 per cent. of the production of the association and 75 per cent. of all the soap produced in this country."

INTERNATIONAL.

Copper.

Copper Exporters, Inc., was established in 1926 with the aim of fixing prices and reducing the number of middlemen. It is said to be responsible for about 90 per cent. of the world output of copper.

Electric Lamps.

"An agreement for delimiting markets and fixing prices is said to have been made in 1926 between British, Dutch, and German interests. The conclusion of such an international arrangement is undoubtedly facilitated by the close financial interrelation of the principal undertakings. Thus the General Electric Company of America control the British Thomson-Houston Company, the largest of three dominant firms in the British industry. They are also closely connected with the Dutch firm of Philips, who in turn are connected with the Osram Company and with the Swiss factories."

Gas Mantles.

By an agreement made in 1926 between British manufacturers and German makers and firms associated with them, it was decided that the Germans and their associates should not sell mantles in the United Kingdom and certain other parts of the British Empire, and that British Companies should not sell on the Continent of Europe and in the United States.

Petroleum.

The world trade is dominated largely by two enormous groups, the Standard Oil Group and the Royal Dutch Shell Group. . . . While the Standard Oil and the Royal Dutch Shell Groups together control less than half the world's production, their importance to international trade

is far greater. Much the greater part of the petroleum supply of the world is produced in the United States by comparatively small concerns and is also consumed in the United States. The production of and trade in oil outside the United States is largely dominated by the two big groups. The principal independent company is the Anglo-Persian Oil Company.

Matches.

This industry is largely dominated by a Trust headed by the Swedish Match Company. . . . It has acquired sole or controlling interests in match factories in various parts of the world. It controls the International Match Corporation, an American Company (formed in 1923) owning 75 match-manufacturing plants in various countries. . . . In 1925 it acquired jointly with the International Match Corporation twenty-year monopolies in Poland and Peru; and in 1926 secured monopoly rights in Greece in return for a loan.

Reference has already been made to the formation in 1884 of the International Rail Makers' Association. Before the war, British, French, German, Belgian, United States, Russian, Austrian, Spanish, and Italian makers were all either members of the association or had agreements with it, and the association controlled almost the entire international trade in rails. In 1926 the association was reconstituted with the name European Railmakers' Association, and embraced British, German, French, and Belgian makers. "Full particulars as to the provisions of the agreement have not been published," notes the Committee on Industry and Trade.[46]

Efficiency and Economy of Combines

The combine and the trust come into being because they are a more efficient form of organization than the types which precede them. They grow in number because experience proves their profitableness to their promoters and controllers. A great capitalistic consolidation can buy its materials in bulk direct from the producer on better terms than a smaller concern. Middlemen are cut out. The larger combinations develop their own resources of raw materials, as in the case of Lever Brothers, who have their own plantations for the production of tropical

[46] *Third Report*, p. 111.

oils,[47] and iron and steel manufacturers who own coal-mines.[48] Certain works may be best suited to a particular class of manufacturer, and in the case of a combine can be allowed to specialize in it, whereas, working independently, it may, to oblige a customer, have to undertake small lines which involve excessive expense. Another source of economy, as the Committee on Trusts points out, is the adoption of standard types of component parts of machinery and structures. This saves the maker of the parts having to reset machinery and get out fresh drawings and specifications to satisfy the requirements of a number of different firms. Combines and consolidations can afford better equipment, and may possibly run a central engineering department to which all questions concerning machinery may be referred and settled by experts. Research, which would be too expensive for a small concern to carry on, may be undertaken by a combine and the knowledge gained spread through all its branches. By-products, of which the quantity would be too small to be handled on a commercial basis in the case of small-scale production, may become a source of profit when utilized by a large concern. The big undertaking can also secure big economies on its distributive side. It can employ its own representatives abroad instead of selling through a general agent, who may not be a specialist in the undertaking's particular line. Considerable transport economies also follow combination. Orders, for example, can be executed at the works nearest the customer. It was shown before the Committee on Trusts that the formation of a combine had, in one instance, put an end to a firm in the Midlands sending goods to Glasgow while a Glasgow firm was sending similar goods to the Midlands.[49] The formation of the United Dairies meant that

[47] A Sub-Committee of the Standing Committee on Trusts in January 1919 reported that Lever Brothers, which was originally a business for the manufacture of soap and glycerine, was then interested in shipping undertakings, banking, engineering, mining, building, whaling, seed crushing, oil refining, plantations and fisheries, the manufacture of dyes, chemicals and industrial gases, candles, margarine, disinfectant, polish, perfumery and paper.—*Economist*, December 22, 1923.

[48] "The buying up of coal and iron properties by steel manufacturers has been greatly accelerated during the last ten years, and it is estimated that the pig-iron manufacturers now control their ore supply to the extent of over 70 per cent. of the total, and their coal supply to the extent of over 60 per cent., apart from large quantities of coal which they produce for sale in the open market."—*Committee on Industry and Trade: Third Report*, p. 78.

[49] *Report*, p. 22.

in the retail section 592 horses were taken off the streets, and that 63 depots and shops were discontinued and made available for other purposes, while in the wholesale section 200 horses were dispensed with.[50] Further saving was effected by central direction for the railing of milk.

THE TRUST MOVEMENT AND THE PUBLIC

Combination is the better form of organization. To try to prevent it would be to stand in the way of the most economical use of the means of production and natural resources, and to attempt to stop a process which, society being what it is, is founded in necessity—for the capitalists must combine or perish. The objection to the combine is, on the one hand, that all, or most, of its advantages go to the tiny minority of capitalist controllers, and, on the other, that it may be, and often is, an instrument for an excessive exploitation of the public. Competition is rapidly passing. The choice to-day lies not between capitalist competition and the capitalist combination, but between capitalist monopoly and public monopoly.

Extensive Influence of Combines

And here it must be observed that already the combinations of capital have their grip on every department of life. If their influence is not direct it is indirect. They operate in the basic industries and the prime necessities of life. The combinations in building materials and in iron and steel, for example, affect the price of the goods sold in every shop and store erected during the existence of the combinations. Tailors may compete, but the combinations of shipowners to maintain the freight for wool at a certain level is inevitably reflected in the price of clothes. The cost to every small shopkeeper of his electric lighting is affected by the unnecessarily high price which a combine compels him to pay for his lamps.

[50] *Departmental Committee: Milk and Milk Products*, p. 5.

Difficulty of Regulating Trusts

Thus we reach the irrefutable conclusion that no defence of Capitalism on the ground that it involves competition will hold water. The Trust and Combine are in the saddle and will ride mankind unless mankind rides them. The only way in which mankind can do that is to supersede the combine by public ownership. For about thirty years the Federal Government of the United States has been engaged in efforts to restrict and regulate the trusts, but with small success. The United States are to-day pre-eminently the land of great aggregations of capital exercising monopolistic or quasi-monopolistic power. The most recent study of trusts in that country is the exhaustive work of Professor Eliot Jones, of Stanford University, which gives but little ground for hope that mere regulation is any remedy for the evils associated with trusts. "The programme of trust dissolution," writes Professor Jones, "has by no means been fully successful."[51] He notes that since the Government energetically began to operate the anti-trust laws, no new trusts have been formed, and "many of those already organized have been less active in maintaining their position by unfair means";[52] but in raising the question whether the policy of the future should be public ownership or a continuance of control he states that experience indicates that in attempting to remove the evils of the Trusts by Government regulation of prices and other measures, "the difficulties that are likely to be encountered . . . are impressive."[53]

Profiteering Act, 1919

The only legislative attempt made in modern times in this country to inquire into or check the operation of capitalist com-

[51] *The Trust Problem in the United States*, 1922, p. 494.

[52] *Ibid.*, p. 497.

[53] *Ibid.*, p. 565. The failure of the United States anti-trust laws to achieve their object is commented on by the Committee on Industry and Trade. From the Sherman Anti-Trust Law of 1890 to the Federal Trade Commission Act and the Clayton Act of 1914 a series of statutes was directed against combinations, but, the Committee states, "only a very partial success has been achieved in preventing the growth of combination or the lessening of competition. . . . When one form of combination is attacked and declared to be illegal, the lawyers advising the corporation evolve a new form which, even if an objection by the Commission is eventually upheld, takes a considerable period to be upset . . . it is indisputable that since the end of the war amalgamations have taken place in many branches of manufacturing industry."—*Third Report*, p. 109.

binations was the Profiteering Act, 1919. This was passed when there were loud complaints of the high prices which prevailed following the Armistice. The Act gave the Board of Trade power to investigate prices, costs and profits, and to inquire into complaints. If satisfied that profit was unreasonable it could declare a reasonable price and order the refund by the seller of any sum in excess of it. The Act applied to traders generally, and was not concerned only with the effect of the operations of combinations. There were a few presecutions and convictions.

The most useful thing done under the Act was the setting up of the Standing Committee on Trusts which investigated trusts and combinations in about a score of industries and from some reports of which we have quoted. Except that, like any other traders, they might be convicted of charging excessive prices, the Profiteering Act contained nothing by which a trust or combination could be coerced into ceasing anti-social operations. But, feeble though the measure was, the capitalists who controlled Mr. Lloyd George's Coalition Government had had enough of it, and after being renewed on two occasions it was allowed to lapse in May 1921.

Prices raised by Trusts

The trust demonstrates the efficiency and profitableness of monopoly. While it is in private hands all the benefits tend to pass to the controllers of the trust; if the public benefits at all it is only incidentally; such benefit is subordinated to the interests of the profit-makers. On the other hand, trusts may, and often do, oppress the community by raising prices, and by using their immense resources and powerful strategic position to depress wages and salaries. When a combine takes the form of an association of separate and nominally independent firms for the purpose of fixing prices and regulating output, prices are invariably raised to the consumer, and there is not much doubt that trusts have the same effect. "It is believed," writes Professor Eliot Jones, "that both history and general reasoning establish the tendency of the trusts to raise prices."[54] There is, he declares, "voluminous evidence" that, as stated by the Bureau of Cor-

[54] *Op. cit.*, p. 261.

porations, the Standard Oil Trust used its power to "oppress the public through highly extortionate prices." The Sugar Trust made for high prices and did little to steady them. In the case of the earlier steel trusts "it appeared that the profits were higher than would have been the case without the trusts, and the prices of the finished product rose more rapidly than costs." The United States Steel Corporation, which succeeded the earlier steel trusts, profited by their experience and charged more moderate prices so as to discourage competition, but "that these prices were highly profitable is proved by the enormous profits obtained by the Corporation, enabling it within fifteen years, more or less, to squeeze out the water from its stock, which at the beginning had little behind it but the hope of monopoly gains." As to the Tobacco Trust, "it kept to itself all the benefits of declining costs."[55]

Although it is not direct evidence, the great extent to which trusts are over-capitalized gives the strongest ground for inferring that their gains are in the nature of monopoly profits. "Generally speaking," says Professor Jones, "the capital of the trusts was twice as large as the value under competitive conditions of the properties and businesses they acquired," but, despite this, large dividends have been paid.[56]

The extent to which any form of combine can force up prices depends, of course, on the importance of its product. If that product is of such a nature that the public can easily do without it, the extent to which the price can be raised will be very limited. And the trust promoters know this. Hence it is that combines of all kinds take as the field of their operations the production of commodities vital to the community. They are most powerful in connection with food, with the basic products of many industrial activities, such as iron and steel, with chemicals, building materials, electric fittings, and transport. These things the community must have, and is, therefore, helpless in the face of those who control the supply. On the other hand, if a group of men were to be so foolish as to form a trust for the manufacture of gold watches, and attempt to get monopoly profits, their enterprise would fail. Gold watches are things which can easily be done

[55] *The Trust Problem in the United States*, 1922, pp. 262, 263, 264.
[56] *Ibid.*, pp. 269, 271.

without, and it would require a very slight rise in their price to act as a check on demand.

Holding Companies a Means of Secrecy

The difficulty of getting to know the gains of capitalist combinations in this country is added to by the fact that they commonly take the form of holding companies. Indeed, these companies have been authoritatively described as "the principal vehicle in which the trust movement travels." The same authority says:—[57]

> The typical holding company is a public company which derives its profits, if any, from having a controlling interest in a number of subsidiary private companies, carrying on allied trades or different branches of the same industry. One of the great advantages of this arrangement (from the point of view of the directors of the parent company) is that the combine can conduct its affairs in complete secrecy. The private companies do not (as the law does not compel them to) publish balance sheets; the balance sheet of the holding company merely shows the income which it has derived (in the course of a year) from its investments in subsidiaries. Thus nothing is revealed as to the amount of profit (or loss) made by any of the subsidiaries. The convenience of this has been well described by Mr. D'Arcy Cooper, Chairman of Lever Brothers, Ltd. (a large, if not the largest, holding company, with some 200 subsidiaries), when he said in evidence before the Greene Committee (*Minutes of Evidence*, 3751):—
>
> > "If you are asked to publish details of these private companies, the result will be that you will get tremendous competition in regard to the particular articles on which you are making good profits."

The Departmental Committee appointed by the Board of Trade in 1925, to report on what amendments were needed to the Companies Act, 1908 and 1917—the Greene Committee referred to above—declined to make any recommendation which would interfere with the secrecy with which holding companies work. On this point the Committee reported:—[58]

[57] *Ency. Brit.*, 13th ed., art. "Companies and Corporations."

[58] *Report of the Company Law Amendment Committee* 1925–26, pp. 45–6: "The principal attraction of the private company," stated the Company Law Amendment Committee which reported in 1918 (not to be confused with the committee of the same title appointed in 1925), "lies in the fact that the

The system by which a large company departmentalizes its business by means of a number of subsidiaries has been found convenient and beneficial in practice, and undue disclosure with regard to subsidiaries would give to competitors both here and abroad useful information as to success or failure of the various branches of the business.

Nothing could better reveal than this passage how the classic theory of competition has ceased to operate, and how this change is accepted, countenanced and encouraged. Part of the apology for Capitalism is that, when exceptional profits are being made, other competitors are attracted to the field, and with increased supply profits fall to a normal level, but by the holding company Capitalism has evolved a device by which potential competitors cannot get to know what profits are being made, and therefore competition, if it exists at all, is kept within the narrowest possible limits. Doubtless this is very "convenient and beneficial" to Big Business.

Increase in Private Companies

It is significant that as the concentration of capital has proceeded the proportion of private companies to public companies has greatly increased. Thus, while in 1910 the public joint-stock companies numbered 25,930 and the private joint-stock companies 24,207, in 1914 the public companies numbered 14,270 as against 48,492 private companies, in 1921 the figures were 12,923 and 67,071 respectively, and at December 31, 1925, the private companies numbered no fewer than 86,065 as against 8,990 public companies. As the law limits the number of members of a private company, exclusive of persons in its employment, to 50, and restricts the right to transfer shares, the growth of private companies clearly means that there is even less opportunity for that wide distribution of capital of which we hear so much, but which we have seen to be an illusion, than there is in the case of public companies.

Thus we reach the conclusion that the trust or combine is

company need not make the annual statement required by Section 26 of the Act of 1908. It avoids the necessity of an annual publication of facts from which the success or failure of its trading might be ascertained. . . . We think it has up to the present justified its existence and should not be disturbed."—*Report*, p. 12.

an anti-social force actual or potential; it is ever a menace—a highwayman in the path of the consumer, who never knows whether and to what extent he is to be looted, and a despot standing over the producer who finds the maintenance or improvement of his standard of life ever more difficult to achieve, and who fails entirely to reap a proportionate share of the increased wealth which the trust wrings from his labour.

Standard of Living 1914–26

We have seen that since the outbreak of war the growth of trusts and combines has steadily proceeded in this country, and at an accelerating pace. What of the standard of living of the masses in this period? Has it risen or fallen? Here are the conclusions of the Colwyn Committee which issued its Report in November 1926:—[59]

> For the employed wage-earner it appears from the purely statistical evidence that real earnings are on the general average much the same as in 1914, and, in view of considerations affecting piecework, they may well be higher.
>
> In relation to the population as a whole, increased unemployment is a seriously depressing factor. On the other hand, earnings are more largely supplemented by unemployment relief, health benefits, pensions, and other welfare provision. . . .
>
> The earnings of unskilled labour have generally improved relatively to those of skilled. . . .
>
> General observation points, on the whole, to some improvement in the standard of living. Such an improvement, which we believe to exist, may be partly due to the smaller size of families, and to changes in the direction of expenditure and the quality of the goods available.
>
> The evidence is insufficient to yield precise or dogmatic conclusions. Balancing the various considerations before us, we can only conclude that if the worker's average standard of living differs from that of 1914, it is probably rather higher than lower. The present position is, however, that while in some industries large numbers have secured an improved standard, in others very many have suffered a reduction.

Summed up, what does this amount to but this: that "if" there is any change in the workers' position it is "probably" for the better, but that this improvement, if, indeed, it be present, is so small

[59] *Report*, p. 15.

that even after such an expert investigation as the Colwyn Committee's one cannot be sure of it. In any case, the improvement—if actually present—is only an average improvement. The lot of all workers has not improved, for in some industries "very many" of them have had their standard of living reduced. The case of the miners—the largest single class of workers except those in agriculture—at once springs to mind. Clearly there is nothing here of which Capitalism can boast. Even if competition is the beneficent thing the apologists of Capitalism would have us believe, it has certainly failed during the twelve years 1914 to 1926, as it failed in the fourteen years 1900 to 1914, to improve the standard of life of the people. But, as we have seen, the truth is that competition has been progressively eliminated in one field after another by the combine and the trust, and this movement I believe to be the most important of the factors which have depressed the standard of living during the past thirty years. It is the most important because it is the most permanent; because it becomes continuously more widespread and powerful; and because it operates both for the depression of *money* wages, by making it more difficult for the trade unions to resist reductions or secure increases, and the depression of *real* wages by the raising of prices. It must, moreover, be remembered that, although recent investigations have done much to reveal the methods and results of trusts and combines, it is not likely that all the truth has been exposed. The trust and combine do not court publicity, but rather the reverse. I think it safe to assume that what we know of the anti-social workings and effects of the various forms of capitalist combination is much nearer the minimum than the maximum of what might be known.

But it is the fate of the trust to prepare the ground for its own supercession. As it rears itself as the pinnacle of capitalist genius, power, and prosperity, it fortifies the case against the very Capitalism of which it is the highest form. At the same time it simplifies and demonstrates the feasibility and advantages of the passage of the great industries from private to public ownership. Before the principles and practice of public ownership are discussed, however, special consideration must be given to the most powerful of all the combinations of capital, and which, properly speaking, themselves constitute the latest phase of capitalist

development. These are the money trusts, to which, so far, only brief reference has been made. They form the subject of the next chapter.

ADDENDUM:—The formation of capitalist combines proceeds so rapidly that it is difficult for a writer to keep pace with it. Since this chapter was finally revised three important developments have taken place. The two great margarine-making concerns, Jurgens and Van den Berghs, have been merged by the formation of an international syndicate to acquire a controlling interest in both. These two concerns between them control the bulk of the margarine trade in this country and on the Continent. By an agreement between Lipton, Ltd., and the Meadow Dairy Company, by which the management of the two companies became associated, Sir Thomas Lipton resigned from the chairmanship of the board of his company and became honorary life president; and Mr. Alexander Purves, managing director of the Meadow Dairy Company, became managing director of Lipton, Ltd. Vickers, Ltd., and Armstrong Whitworth have decided to amalgamate their armaments, heavy steel, and shipbuilding businesses.

CHAPTER VI

THE POWER OF THE BANKS

There is no contract, public or private, no engagement, national or individual, which is unaffected by it. The enterprises of commerce, the profits of trade, the arrangements made in all the domestic relations of society, the wages of labour, pecuniary transactions of the highest amount and the lowest, the payment of the National Debt, the provision for the national expenditure, the command which the coin of the smallest denomination has over the necessaries of life, are all affected by the decision to which we may come.—SIR ROBERT PEEL, introducing the Bank Charter Bill, 1844.[1]

Bank credit facilitates every branch of production. Goods are raised from the soil, manufactured, carried and marketed with the assistance of credit at every stage.—REGINALD MCKENNA, Chairman of the Midland Bank, *The Times*, January 29, 1927.

WE have seen in the previous chapter how the number of banks has steadily declined until in 1922 there were only thirty joint-stock banks and two private banks left. We noted also that of the joint-stock banks the Big Five held roughly five times the amount of deposits of the remaining twenty-five banks between them.

FURTHER CONCENTRATION OF BANKING

In 1923 two more banks were swallowed up in the Big Five: Lloyds Bank absorbing Cox & Co., and the Westminster Bank absorbing Stilwell & Sons.[2] In spite, however, of the advanced stage which amalgamation has reached, the effective competition between banks is even less than to the casual observer it would appear to be. Different laws, different history, and to a certain extent perhaps patriotic pride, for a long time resulted in the Scottish and Irish banks resisting the tendency to amalgamation; but economic circumstances have proved too strong for them, and to-day, although carrying on under their own names and with separate managements, several of these banks have been brought within the orbit of the Big Five. Lloyds Bank

[1] Quoted by Sir Felix Schuster, *The Bank of England and the State*, 1923, p. 36.

[2] *Economist*, February 17, 1923, and April 28, 1923.

in 1918 acquired control of the National Bank of Scotland, and it also has a substantial interest in the P. & O. Banking Corporation, the Bank of British West Africa and the National Bank of New Zealand. In 1917 the Midland Bank acquired the capital of the Belfast Banking Company and it purchased the shares of the Clydesdale Bank of Glasgow in 1920. A few months later it secured a controlling interest in the North of Scotland Bank, Ltd. In 1917 the Westminster Bank obtained control of the Ulster Bank.[3] Barclays Bank has affiliated to it the British Linen Bank of Edinburgh, in which in 1926 it held stock worth £3,662,126, and the Union Bank of Manchester, in which in the same year it owned shares of the value of £2,250,000.[4] Nor is the movement towards consolidation confined within the borders of the United Kingdom. In 1925 Barclays Bank formed a subsidiary concern, Barclays Bank (Dominion, Colonial, and Overseas), which was an amalgamation of the Colonial Bank, the National Bank of South Africa, Ltd., and the Anglo-Egyptian Bank, Ltd.

Looking at the combination movement from another angle, we find that of total bank resources of £2,477,000,000 the Big Five in 1923 controlled more than 79 per cent., compared with 37·7 per cent. out of total resources £1,211,000,000 in 1913, and 28·1 per cent. out of total resources of £881,000,000 in 1900.[5]

Still less Competition in Future

Far as the process of trustification has gone, it is likely to go farther. It may not do so by formal amalgamation—any further amalgamations must have Government consent—but there is every reason to believe that agreements and understandings, which would be quite as effective from the standpoint of their adverse effect on the public interest, will be entered into. For

3 *Statist*, April 5, 1924.

4 *The Times*, January 21, 1926. In 1927 there were affiliated to the National Provincial Bank, Coutts & Co., Grindlay & Co., Ltd., Bank of British West Africa, Ltd., Lloyds & National Provincial Foreign Bank, Ltd., P. & O. Banking Corporation, Ltd., and the British Italian Banking Corporation, Ltd.

5 *Statist*, May 10, 1924. The Big Five, of course, were not in existence in 1900 or 1913, but the figures for those years refer to resources held by banks which subsequently merged in one or other of the Big Five.

the banks are businesses carried on for private profit and actuated by motives similar to those operating in other commercial concerns.

Expense of Multiplying Branches

In his anxiety to assure us that, in spite of past amalgamations, and the dominating position of the Big Five, the banks do, in fact, effectively compete, the late Dr. Walter Leaf, who was Chairman of the Westminster Bank, points to the rapidly increasing number of bank branches. They spring up, he quite truly says, in close proximity to one another, often facing each other on opposite sides of the same street. This, as everyone must have noticed, is especially the case in newly developed areas of population such as the expanding suburbs of London.

Now, it is true that competition between titans may be fiercer than competition between smaller fry, and it is because of this that such rivalry tends the more rapidly to the calling of a truce and the ending of the strife, either by fusion of the rivals into a new capitalist consolidation, or by some understanding which will set a limit to the extent to which competition is to be carried. Dr. Leaf states that before the war it was calculated that a new branch of a bank should be paying its way in from one to three years, but that nowadays, with costs on a much higher scale, that period would have to be doubled.[6] This information is given by Dr. Leaf to illustrate his view that the banks are keen to compete one with another. That there is a certain amount of competition between existing banks no one would deny, but the moral to be drawn from the multiplication of bank branches is rather that such competition must inevitably be curtailed in the not distant future. The controllers of the banks are too good business men to tolerate indefinitely the waste which is represented by setting up branches within a stone's throw of one another, and having perhaps three or four bank premises to do business which could be done by one—especially when, according to Dr. Leaf, it nowadays takes from six to ten years for a new

[6] *Banking*, p. 115.

branch to pay its way. Such rivalry will in time cut too deeply into profits. The banks exist to provide profits for their shareholders, and their directors will accordingly apply, in some way or other, the remedy—the further limitation of competition.

We may sum up the position thus: (1) For forty years past the number of banks has steadily diminished until the great bulk of the banking business is in the hands of the Big Five; (2) Of the other joint-stock banks which retain their names and separate management, an increasing number are controlled by one or other of the Big Five; (3) The waste and reduction of profits consequent on such competition as remains will result in further restrictions of competition, either openly, by further amalgamations, or secretly, by agreements and undertakings between the banks. What bearing has this on the public interest?

Credit Essential to Industry

The business of a bank is predominantly that of a money-lender. It is by lending money at interest that the banks make their profits. We have evolved a remarkable system whereby the surplus resources of the community are handed over to a small group of bankers, who make money out of it by lending it to other people. This system is not only absurd; it is positively dangerous. It is dangerous because the modern industrial community operates largely by means of credit, that is, by borrowing money to enable transactions to be carried out and the whole round of production, exchange and consumption to be kept going. To quote again the words of Mr. McKenna placed at the head of this chapter, "Bank credit facilitates every branch of production. Goods are raised from the soil, manufactured, carried and marketed with the assistance of credit at every stage."

The reason for this, in brief, is to be found in the large scale on which industrial enterprise is now carried on, and the fact that production draws on the world for its raw material and disposes of its output in a world-wide market. A firm may get a contract worth, say, half a million, but it will take many months

to execute, and therefore it will be many months before the half-million is drawn. Meanwhile material has to be purchased and the firm must generally carry on. The contract may, too, be obtained at a time when the firm is rather short of liquid resources —that is, cash or securities easily convertible into cash. In such circumstances it would seek a loan from a bank and, if it had adequate security, would get it. When producer and consumer may be separated by thousands of miles, and when the raw material of the goods to be produced may have to be transported half-way across the world, much time must elapse between the purchase of the raw material and the payment by the consumer for the finished product—as one writer puts it, "between the mining of the iron ore in Bilbao and the selling of the Sheffield knife to the West African negro; between the gathering of the pods of the cotton-tree and the exposure for sale of Manchester goods in the bazaar at Calcutta."[7]

But in addition to these factors which make credit a necessity the nature of capitalist production is such that trade goes in cycles. Periodically a slump sets in, and it is then that there are heavy borrowings from the banks to tide over the bad times. The creation by Capitalism of a huge army of unemployed has resulted in local authorities also having to borrow from the banks on a scale hitherto undreamed of in order to pay poor relief and finance relief works. On the other hand, when the trade tide is on the turn, the banks will assist traders and manufacturers to take advantage of opportunities which may open out.

Banks' Power over Industry

When it is realized how large a part credit plays in the modern scheme of things, it will be seen how serious a view must be taken of the rapidly increasing trustification of the banking industry. It means that the banks are in a more powerful position than ever before to dictate to industry, and to control both the volume and nature of production. Bank advances, we have it on Dr. Leaf's authority, "cover the whole range of the commerce and industrial processes of the world."[8] The banks make these

[7] W. J. Weston, *Banking and Currency*, 1922, p. 148.
[8] *Op. cit.*, p. 156.

advances on the best terms they can get. That is their business. Lest there may be any misconception, it must be pointed out that the Bank Rate, which is the rate fixed by the Bank of England, is not necessarily the rate charged for advances by the other banks, but is only the basis on which they work.[9] The rate charged by the banks for advances, as distinct from the Bank Rate, is known as the Market Rate, and its amount depends on the demand for credit and the competition among banks for business. Competition depresses the rate just as it does the price of any other commodity, and the elimination of competition by the trustification of banks enables the bankers to screw more out of the community for the loan of money.

Huge Totals of Bank Advances

The banks are very secretive—no institutions more so, with the possible exception of the Foreign Offices of Governments. No one would suggest that the affairs of individual customers should be exposed, but even in broad outline we are permitted to see but little of the banks' operations. At their annual meetings, however, the amount of the advances made during the year is usually revealed, and for the year 1926 the advances of the Big Five reached in the aggregate the mammoth total of £834,604,000 —more than £834,000,000.[10] The Chairman of Lloyds Bank, Mr. J. Beaumont Pease, at the annual meeting held in January 1927, went so far as to show, in the case of that bank, in what directions the advances had been made. This surprising frankness—it was, I believe, without precedent—was a subject of comment in financial circles. It enables us to get a more detailed view of the extent of the grip which even one bank has on the industry of the country. Here are the figures:—[11]

[9] Mr. Hartley Withers on this point says that the banks other than the Bank of England "create a mass of internal credit and currency which they build on the foundation of the Bank of England's reserve, but expand at their own discretion and at rates which have no connection or sympathy with the official rate that is named by the Bank. . . . *The Bank of England official rate is often a quite empty formula, and the business of the London market is carried on without any relation to it.*"—*Meaning of Money*, p. 211 (italics mine).

[10] *Financial Times*, January 27, 1927.

[11] *The Times*, February 5, 1927.

	Total of Advances in 1926 by Lloyds Bank.
Agriculture	18,503,000
Personal and professional ..	43,537,000
Retail	13,223,000
Local authorities	7,068,000
Iron and steel	3,174,000
Coal	3,890,000
Cotton	3,808,000
Chemicals and fertilizers ..	894,000
Oils and fats	1,670,000
Paper, printing, and publishing	1,818,000

These figures are eloquent of the enormous influence which the bankers exercise over the life of the community. Is it a power which should be left in private hands?

Banks influenced by Profit, not Social Necessity

In granting financial accommodation to an enterprise a banker is influenced solely by commercial considerations. Whether the enterprise be a necessary or a beneficial one from the public point of view, whether the money which the banker has to lend might not be turned into a channel which would meet a more urgent need, is a secondary consideration, or, indeed, not a consideration at all. This is not to say that bankers as a class are less public-spirited or have less of human compassion about them than the rest of us; the truth of the observation that they are guided only by commercial motives springs from the fact that they are the representatives of shareholders who have invested their money in banks in order to get the largest possible return consistent with reasonable security. If at the annual meeting of a bank it was reported to the shareholders that the dividend would have to be considerably reduced because the bank had loaned money at, say, 2 per cent. for the provision of decent homes for families herded in one or two rooms, instead of lending it at, say, $5\frac{1}{2}$ per cent. to assist the building of a palatial hotel for the rich—if such a report were presented, the directors would

be open to censure and would probably get it, and perhaps dismissal in addition, unless the shareholders regarded such extraordinary conduct as evident that the directors had merely taken temporary leave of their senses and in charity decided to give them another chance.

Yet would such conduct be, in reality, extraordinary? From the purely commercial standpoint it would be, but judged from the point of view of the public welfare, which is intimately bound up in many ways with good housing, and is in no way furthered by the building of another palace for the rich, the lending of money at a low, even purely nominal, rate for the building of houses would be a sound investment and justifiable on every ground of ethics and economics.[12]

In these days of housing and other forms of enterprise by municipalities, and of extensive relief works made necessary by the failure of Capitalism to find employment for nearly a million and a half people, the banks are in a position to restrict the freedom of public authorities in a way which no private corporation working for profit should be able to do. For it must be remembered that, although the Ministry of Health has to sanction loans granted to local authorities, its responsibility ends there. The interest to be paid on the loans is a matter to be settled between the authority and the bank.[13] The importance of this in the case of housing alone will be realized when it is borne in mind that, as the Minister of Health (Mr. John Wheatley) stated in the House of Commons on June 3, 1924, the interest on money borrowed to build a £500 house, spreading the cost over 60 years, accounted for 6s. 6d. of the weekly rent as against 1½d. represented by the cost of land, 1s. 10½d. for materials and profits, and 1s. 3d. for all labour costs.

Banks' Influence on Prices

Thus far we have dealt with only one aspect of the credit granted by the banks. We have seen that industry and public authorities do a large amount of borrowing from the banks, and

[12] Opponents of Socialism would say that the building of the hotel would be "good for trade." This is a mischievous fallacy, which seeks to justify the extravagance of the rich. The building of houses also is good for trade.

[13] Leaf, *op. cit.*, p. 179.

that the banks have a corresponding degree of control over the extent and nature of industrial development. But there is a deeper aspect of the matter, and one perhaps more sweeping in its consequences, which remains to be considered. This is the influence of credit on prices.[14]

This is a vital matter, and it is securing such an increasing amount of public attention that there are signs that the bankers are beginning to put themselves on the defensive. In his book already quoted Dr. Leaf actually takes up the absurd position that the banks are not creators of credit at all. "If anyone in the deposit banking system," he writes, "can be called a creator of credit it is the depositor; for the banks are strictly limited in their lending operations by the amount which the depositors think fit to leave with them."[15] This is merely begging the question. Quite obviously the banks cannot lend to an unlimited extent, and if no one put any money in the banks they could not lend at all; and that is all Dr. Leaf's statement amounts to. The banks do create credit; by creating credit they increase the supply of money, and thus influence prices and the volume of production. Let us look at the matter a little more closely.

Inflation and Deflation

Money exchanges for goods. If the volume of money increases without a corresponding increase in the quantity of goods, then money, considered in relation to goods, will have declined in value. Because money has declined in value a given quantity of money will not exchange for the same amount of goods as formerly. To purchase that amount of goods more money will be needed—which is another way of saying that prices will rise. This is what, in fact, does occur. An increase in money without a corresponding increase in goods brings about a rise in prices. An increase in the quantity of money is called an inflation of the

[14] The reader will, of course, bear in mind the distinction between granting credit in the sense of making a loan and being "credited" with money one actually pays into a bank. The credit we are now discussing consists of a book-keeping operation which gives the person to whom it is granted the right to draw cheques for the sum advanced.

[15] *Op. cit.*, p. 102.

currency. Thus we reach the position that inflation causes a rise in prices.

If the process be reversed the result also will be reversed. If the volume of money be decreased without a decrease in the quantity of goods, money, considered in relation to goods, will be worth more than formerly. As money is worth more, less will be needed in exchange for a given quantity of goods, which is another way of saying that prices will fall. And this is what does, in fact, occur. Decrease the quantity of money without decreasing proportionately the quantity of goods, and down will come prices. Such a decrease of money is called deflation. Thus we reach the position that deflation causes prices to fall. Further, to increase money is to increase the demand for goods, and if the goods are not at the same time increased, that is, if production remains on the same level, this larger demand will force up prices. Similarly, if the volume of money be lessened, demand for goods falls off, and unless the goods are similarly decreased, that is, unless production is correspondingly curtailed, the fall in demand will be accompanied by a fall in prices.

Power to vary the Volume of Money

Now, what is money and how can its quantity be increased or decreased? Let us take the definition of a banker—and I think there can be no quarrel with it. "I regard money," Mr. McKenna has said, "as including all forms of currency, together with bank deposits readily withdrawable by cheque."[16] Nothing that the public can do, Mr. McKenna points out, can, practically speaking,

[16] *The Times*, January 29, 1927. Professor Edwin Cannan, however, says it is an error to suppose "that the aggregate of deposits is a kind of money (sometimes it is called 'bank-money') which should be added to the actual stock of coin and notes existing at any moment. The individual, no doubt, finds 'money in the bank' much the same as 'cash in the house,' but the aggregate of all the individuals' balances at the banks is only the amount which the bankers are liable to pay, but which they could not pay in cash all at one moment. A liability to pay cash is certainly not cash: both debtors and creditors are painfully aware of the fact."—*Money: Its Connection with Rising and Falling Prices*, 1923, p. 81. In strict logic this may be so, but the point, surely, has little relation to realities. There is no likelihood of the depositors all wanting to withdraw their deposits in cash all at one moment. So long as the deposits, in the actual affairs of life, and in all circumstances that can reasonably be foreseen, can be withdrawn at will—as, in fact, they can be—then it is right that should be regarded as money.

increase or decrease the volume of money in the country. Whether the public buy or sell, lend or borrow, save or spend, the quantity of money remains unaltered. They can affect the quantity of money by destroying their notes, but this is not a habit of people lucky enough to possess notes. Another way in which the public could alter the volume of money would be to send notes abroad, but this is very rarely done. And in this respect the British Government is in the same position as the public—it cannot increase or decrease the amount of money in use except in the purely hypothetical case of creating currency notes to put itself in funds. This the Government does not do. The currency notes issued when the war broke out were a substitute for gold, not an addition to it.

The only people who can vary the volume of money are the bankers, and they do it by means of creating credit, that is, granting loans. By granting loans, or calling them in and refraining from granting more, the banks vary the volume of money, and by varying it they send prices up or down and so affect the volume of employment and the rate of wages. In terms of human existence they determine whether the queues at the Employment Exchanges shall be long or short, whether the relief committees of the guardians shall be busy or slack, whether children shall be well fed or ill fed, and how much we shall pay in rates and taxes for various forms of public relief to those whom the action of the banks, seeking and making their own profits, have thrown out of employment.

The "Forced Levy"

For when they grant loans the banks do not at the same time increase goods. They can lend, as Mr. Lavington puts it, "only Command over Capital; they cannot increase the supply of food, raw material, machinery, and other real capital which is required. Every increase in their loans means an increase, not of real resources, but of control over those resources; it means a dilution of the currency and involves a further fall in the purchasing power of the sovereign, or, in other words, a further rise in the general level of prices. . . ."[17] The effect of such action by the banks,

[17] *The English Capital Market*, 1921, p. 173.

he adds, is to "make a forced levy on the community for the benefit of those who borrow from them."[18] Although the borrowers do, in fact, benefit, the motive of the banks is to benefit themselves; but, in any case, there can be no doubt about the community having to pay the "forced levy."

Growing Unreality of Gold Basis

The banks keep their balances at the Bank of England, and in the last resort their lending powers rest on the Bank of England's gold, but this gold basis has for years been declining in importance, and to-day is of little practical significance. The public has got fully accustomed to all the various forms of paper money which for long have been rapidly growing in use. If gold could be demanded nowadays for notes, as it could be before the war, there would be even less likelihood of its being called for now than there was then.[19] The public knew it could get gold and that was sufficient. It is a practical certainty that there will never be such a rush for gold as to exhaust the stocks. Indeed, if there were any likelihood of such an occurrence the Government by the suspension of the Bank Charter Act (which limits the amount of notes which the Bank of England may issue without gold backing) and by other measures would force paper on to the public, and the public would be content. Thus the gold basis of paper currency has little relation to realities. We are given to understand, in effect, that we have a right to demand gold, providing too many of us do not exercise the right at the same time! If so many of us want gold at once that the Bank has not

[18] *The English Capital Market*, p. 181.

[19] "Throughout the war both bank notes and Treasury notes were theoretically convertible into gold. But the export of gold was, though not forbidden, closely controlled under the Defence of the Realm Act, and not permitted to any private person. A certain amount of gold was permitted to manufacturers—dentists needed it, for instance, and there was a large demand for wedding rings. The only other purpose for which it could be worth the while of anyone to change notes into gold was for the illegal object of melting down the coin of the realm; and on this ground the demanding of gold in exchange for notes was a highly suspicious operation, and subjected anyone who attempted it to a surveillance which amounted in practice to a prohibition." The embargo on the export of gold was removed at the end of 1926, but it was decided for the protection of the gold reserves of the Bank of England that the circulation of gold coin should not be resumed. The obligation of the Bank to pay both its own notes and Treasury notes in gold, nominally maintained since the outbreak of war, was abolished.—Leaf, *op. cit.*, pp. 47, 52.

enough to go round, then the Government will see to it that we do not get gold, but will compel us to accept paper![20]

The extent to which the banks can create credit is, then, extremely elastic. The final control of this credit—of the amount of available money—rests with the Bank of England; for if one of the other banks makes an advance it decreases by a similar amount its balance at the Bank of England, whereas if the Bank of England makes a loan the sum loaned must sooner or later return to it as a part of the reserves of the bank or banks to which the money has found its way. All money finds its way to the banks, and the Bank of England as the bankers' bank collects the reserves of all of them.

Bank of England a Capitalist Company

This brings us to a consideration of the position and nature of the Bank of England. The first point to note is that the Bank is not, as is sometimes supposed, a State institution. It is a commercial company—"a company of stockholders," as Mr. Hartley Withers calls it,[21] or, to adopt the description by Dr. Leaf, it is a "joint-stock bank, working for the profit of its shareholders, but having the sole privilege of carrying on the Government account."[22] Another authority, Sir Felix Schuster, reminds us that "the State has no voice in its management; it has no share, except to a quite insignificant extent, in its profits." Sir Felix adds that the duties of the Bank "affect our commercial life so closely, and are so indissolubly connected with the functions and duties *which are properly those of the State*, that to look upon the Bank of England merely as a private trading institution, and not virtually the State or Government Bank, is an impossibility.[23]

[20] "So long as the law requires that legal tender ultimately means gold paid over the counter of the Bank of England, gold no doubt must be kept. And this requirement may be a wise policy. But it is by no means evident that it is *economically* necessary as a support for the banking system of the country. . . . Gold is only a requisite of the credit system so far as it is useful to sustain confidence. . . . It is a conventional utility, a serviceable check on possible abuses of credit issue, but not in the strict scientific sense an economic necessity in the working of the credit system by which modern commerce is conducted."—J. A. Hobson, *Gold, Prices and Wages*, pp. 81, 83.

[21] *Meaning of Money*, p. 213.

[22] *Banking*, p. 12.

[23] *Bank of England and the State*, pp. 8 and 9 (italics mine).

Thus we find Sir Felix admitting that the Bank of England carries out functions which are of such a nature that they should be carried out by the State—or what is the meaning of the phrase that they "properly belong to the State"?—he agrees that the State has no share in the management of the Bank, and little or no share of its profits, and yet he invites us to regard the Bank of England as "virtually the State or Government Bank."

Bank of England Functions

Here in truth is a pretty set of contradictions, but to disentangle them is a simple matter. The Bank of England is a State or Government bank in one sense only, and that is that it keeps the nation's balances and has the management of the Government's money matters. It makes advances to the Government when they are needed, it issues Government loans and keeps the register of stockholders and pays the interest. These are some of the functions properly belonging to the State which are carried on by a commercial company for profit. In addition the Bank does business with private customers like an ordinary joint-stock bank, and altogether reaps a comfortable harvest for its shareholders. The following are the dividends paid by the Bank of England in recent years:—[24]

Years.	Per Cent.
1904–13	9
1914–15 to 1920–1 ..	10
1921–2	11½
1922–3 to 1924–5 ..	12

Even these substantial dividends do not adequately represent the profits made by the Bank. In the weekly Bank Return issued by the Bank of England there is a mysterious item called "Other Deposits." What is covered by this is unknown even to City experts—even bankers themselves. "Other Deposits" is always an enormous sum. For the week during which this is being

[24] *Banking*, p. 86.

written they stand at £103,922,324;[25] and in the opinion of Dr. Leaf "it may safely be guessed that hidden reserves provide a handsome item to be included among the 'Other Deposits.' "[26]

Secrecy of Bank of England

Now even if we assume it to be necessary that the nation should hand over the management of its money affairs to a company, it is surely reasonable to expect that the working of the company and its financial position should be made known to the public. With the Bank of England the exact contrary has always been, and is now, the case. The Bank's operations are conducted in a secrecy which baffles even those who live and move in the world of finance. Here is the Bank Return for March 9, 1927—it is published on Wednesday of every week:—

BANK OF ENGLAND

Accounts, March 9, 1927

Issue Department

Notes Issued	£169,105,970	Government Debt ..	£11,015,100
		Other Securities ..	8,734,900
		Gold Coin and Bullion	149,355,970
	£169,105,970		£169,105,970

Banking Department

Proprietors' Capital ..	£14,553,000	Government Securities	£31,222,560
Rest	3,720,945	Other Securities ..	73,689,766
Public Deposits ..	16,158,524	Notes	32,049,410
Other Deposits ..	103,922,324	Gold and Silver Coin..	1,397,056
Seven-day and other Bills	3,999		
	£138,358,792		£138,358,792

The meaning of items of the Issue Department is clear. They show the amount of the note issue and how it is covered by gold,

[25] *Statist*, March 12, 1927.

[26] *Banking*, p. 87. At the annual meeting of the Bank of England in 1927 the Governor (Mr. Montagu Norman), answering a stockholder, said the new premises of the Bank would cost about £5,000,000. He did not think this would affect the dividend, as for some years they had been endeavouring to make provision for this expenditure. "Which," said the *Commercial* (published by the *Manchester Guardian*), "is as near as we are likely to get an official admission of the fact that profit earned by the Bank is not always (as would appear) only just sufficient to cover the dividend, and that the reserves of the Bank are not confined to the £3,000,000 or so at which the 'Rest is permanently stabilized.' "—September 29, 1927.

by advances to the Government, and other securities. But it is very different when we turn to the Banking Department. On the liabilities side we find the proprietors' capital, the "Rest" (a curious name given to undivided profits and which is kept at a minimum of £3,000,000), the "Public Deposits," and then the mysterious item "Other Deposits," which commonly amounts to three times all the other items put together. On the other side, similarly, we find a huge item "Other Securities," in which about half the assets are lumped together. More than twenty years ago such a financial expert as Mr. Hartley Withers described the Bank Return as "giving only a tantalizing indication of the outside of things, of which monetary students crave hungrily for details," and wrote of "the obscurities which clog any attempt to unravel the meaning of the Bank Return,"[27] but the Return remains exactly what it was. During the war it became so unintelligible that even bankers ceased to pay any attention to it. When Dr. Leaf, although himself the chairman of a great bank, informed the Governor of the Bank of England that he believed that the only line in the return which he understood was "Gold Coin and Bullion," the Governor remarked, "Mr. Leaf, I do not think you even understand that."[28]

Grip on Government Finance

How great is the potential influence of the Bank of England over the Government was bluntly expressed a few years ago by a leading organ of finance. It was in the autumn of 1921. Unemployment was acute, and the Government was about to consult the banks as to what assistance they could give with a view to alleviating it. The Cabinet was reported to be dissatisfied with the attitude of the banks, and a certain newspaper reported that "one Minister" had said that the country had not realized that the banks were then in five big groups, and that "half a dozen men who control them can make or ruin the entire nation."

[27] *Meaning of Money*, pp. 253, 258. Dr. Leaf says of the item "Public Deposits": "So far as the City is concerned they are an element of mystery: why they increase and diminish from time to time and how far they may be set off by the Government Securities on the other side of the account is a matter of guess-work."—*Banking*, p. 38.

[28] *Banking*, p. 45.

Whereat the *Financial Times* (September 26, 1921) vigorously, if somewhat indiscreetly, took up the cudgels for the banks. It wrote (italics mine):—

> Whoever may be the indiscreet Minister who revives the "money trust bogey at a moment *when the Government had most need to be polite to the banks*, he should be put through a course of elementary instruction in facts as well as in manners. Does he, and do his colleagues, realize *that "half a dozen men" at the top of the five big banks could upset the whole fabric of Government finance by refraining from renewing Treasury Bills?* [39]

Summary

The conclusions to which the facts and arguments so far lead may be summarized thus:—

1. The industry of banking has become highly trustified, and by further amalgamations, affiliations, agreements, or understandings will in all probability become more so.
2. The power of the banks to control production, both as to volume and direction, has thus been enormously increased, as also has their power to extract high profits out of the public.
3. The immense development of the use of credit in carrying on industrial operations has made the banks the controllers of the volume of money, and therefore in some degree of prices, which in turn affects the volume of trade.
4. That the ultimate control of the volume of money lies with the Bank of England, a commercial company carrying on business for profit.
5. That the Bank of England, although a capitalist concern, has the management of the Government's money affairs in its hands; that the Government has no share either in its management or its profits, and that the Bank works

[39] Treasury Bills are bills issued by the Treasury for money borrowed by the Government. They are payable at three, six, nine, or, at most, twelve months. They were first issued in 1877. They do not carry interest, but instead are tendered for at a discount; that is to say, a £100 bill would be obtained for £96 10s. if the discount rate were 3½ per cent. When the Government wants to borrow money on Treasury Bills an announcement appears in the *Gazette*, and forms of tender may be obtained from the Bank of England.—*Thompson's Dictionary of Banking*, 1919.

behind a veil of secrecy which even financial experts outside its charmed circle find it difficult, if not impossible, to penetrate.

Such enormous influence over the well-being of the community ought not to lie in private hands, and one of the first objectives of Socialism to-day is the nationalization of the banks.

Public Credit behind Capitalist Banks

The whole question of nationalization, its principles and practice, will be dealt with in succeeding chapters, but here it may be remarked that, apart from the foregoing reasons, in one respect particularly the banks stand in a position which gives special justification to the plea that they should be publicly owned and controlled. This is the fact that the credit of the Government—which is that of the nation—is always behind the banks. The failure of a great bank would be such a great disaster that no government would allow it to come to such a pass. A bank in a grave crisis could rely on financial support from the Government. Thus behind the private operations for private profit carried on by the banks stands the public credit! This has the effect of giving bank shares the character of a gilt-edged security.

State Banking practicable

It will be shown later that Governments and municipalities can successfully carry on banking. As in the case of other great capitalist enterprises bank shareholders—the capitalists—take no part in the management, and for all that it would affect their dividends may be as ignorant of banking, finance and commerce as new-born babes. The directors, too, as banks have grown in size, have taken a less active part in carrying on the banks' work, just as have directors in other capitalist concerns.[30] The

[30] After pointing out that the part of the directors diminishes as the banks grow in size, Mr. Sidney Webb states that the directors "come to be chosen more and more not because of their holdings of shares, or because of their ancestral or personal connection with banking, but because of their reputation

work falls increasingly in all its aspects to full-time paid officials. The State could, in any case, obtain the service of men with knowledge equal to that of bank directors, and indeed has many such now in its service. The point is worth making only because of the tendency to look up to the bankers as the Wise Men of industry. After all, they are only money-lenders. A less polite age, before the money-lenders became necessary to the dominant class and absorbed into that class, would have called them usurers, and the Church would have frowned on them.

Profits of Banks

If the banks were nationalized, their primary object would not be to make profits, but to assist economic and social development in a way which would raise the standard of life, increase its amenities and assist the spread of culture. But they could make profit and to some extent most probably would do so. Meantime, we may note the tribute of profit which the community is paying to the capitalist banks to-day. Here it is for the four years preceding the time of writing, the figures being those of the eleven joint-stock English banks:—

	1923.	1924.	1925.	1926.
	£	£	£	£
Barclays	1,891,066	2,067,281	2,289,837	2,427,162
Lloyds	2,047,116	2,468,934	2,569,366	2,523,582
Midland	2,210,972	2,424,992	2,522,469	2,535,730
National Provincial ..	1,791,287	1,974,043	2,161,580	2,115,654
Westminster	1,804,782	2,013,502	2,205,392	2,157,232
Bank of Liverpool ..	486,966	530,443	572,317	542,731
District	428,606	448,073	458,993	450,139
Lancs and Yorks ..	240,302	242,957	245,360	264,528
Manchester and County	190,105	193,393	199,319	186,116
Union of Manchester..	227,047	221,395	214,221	205,762
Williams Deacons ..	327,247	338,893	344,860	330,856

or influence, commercial, social or political."—*Contemporary Review*, July 1918. Mr. Easton refers to managers and assistant managers as settling "problems of loans and other matters of importance."—*History and Principles of Banking*, p. 291.

These impressive figures, besides showing the price the public pays to the banks, reveal two other important things: first, the dominance of the Big Five; second, the fact that the great industrial slump which was a bad time for most people and involved untold misery for the poorest was a very good time for the banks. The aggregate profits of these eleven banks from 1920 to 1926 were:—

	£
1920	17,315,262
1921	13,549,021
1922	11,869,453
1923	11,645,496
1924	12,923,906
1925	13,783,714
1926	13,739,492

Thus in 1926, the year of the Coal Lock-out and the National Strike, the banks' profits nearly equalled those of 1925, which was the best year the banks had had since the war, except the boom year of 1920.[31] In the seven years the banks levied a toll on the community of more than one hundred millions. Had they been owned by the State, and assuming that the State had pursued a similar policy of profit-making (which would have left the community no worse off than with the banks in private hands), this hundred millions might have gone a long way towards buying the coal industry for the nation. Sir Josiah Stamp, late Assistant Secretary to the Board of Inland Revenue, told the Coal Industry Commission of 1919 that the total pre-war capital invested in the coal-mining industry was "about £135,000,000."[32] If, however, half the lamentations of the coal-owners as to the losses and the smallness of profits be true, coal capital, in the case of the nation buying out the owners, should not be taken at anything like its face value. However that may be—it raises an issue to be treated in a later chapter—and to whatever use it might be put—and a score of highly beneficial uses will occur to the reader—the sum of one hundred millions would be a magnificent

[31] O. R. Hobson in *The Banker*, February 1927, from an article by whom the figures of profits are taken.

[32] This estimate was based on the output of the five years preceding the war. "Eminent colliery owners and others," said Sir Josiah Stamp, had placed the amount at £143,000,000 in 1913.—*Minutes of Evidence*, Q. 771.

addition to the national revenue, and there is no inherent reason why it should not have gone into the pocket of the public instead of the pocket of the banks. The banks take it because the community is foolish and indifferent enough to let a handful of bankers manage this vital industry instead of owning and managing it itself.

The public ownership and control of the banks is a key position in the task of securing the complete transference of the means of life from the capitalist class to the public. The principles on which the case for such a transfer is based will be discussed in the next chapter, and in the chapter following that it will be shown that wherever public enterprise in industry has supplanted private enterprise, or entered the field in competition with private enterprise, the community has benefited by the process.

CHAPTER VII

THEORY OF PUBLIC ENTERPRISE IN INDUSTRY

The *Separation* between the Man of Labour and his instruments of Labour once established, such a state of things will maintain itself and reproduce itself upon a constantly increasing scale, until a new and fundamental revolution in the mode of production should again overturn it and restore the original union in a new historical form.—KARL MARX, *Value, Price and Profit*, ch. vii.

WHEN the methods of production were so simple that the producer owned his tools, and when the mass of the people either owned land or had access to it with definite rights as to cultivation or grazing, the producer, whether industrial or agricultural—and for a long period the two occupations were commonly combined—could be independent and self-supporting. With the arrival of the machine age and large-scale production, operating through factories and works which grow larger with the advance of time, and side by side with the establishment of a monopoly in land by a small landowning class, such independence and security have been destroyed.[1] The town-workers cannot all own factories or there would be nobody to work in them; it is fantastic to suppose that every operative cotton-spinner could own his own spinning mule, every ironworks labourer his own puddling furnace, or every railwayman his own railway, as the carrier of an earlier

[1] This passage must not be understood as implying that before the arrival of what we know as the machine age wage-labour was non-existent. On the contrary, the hiring of men for wages had been carried on for centuries previously. But in those earlier times wage-labour was not the general, typical, dominant characteristic of the productive process that it became with the rise of modern Capitalism. Frederick Engels remarks that wage-labour "is very ancient; in a sporadic, scattered form it existed for centuries alongside of slave-labour." He adds: "The first capitalists found . . . alongside of other forms of labour, wage-labour ready-made for them on the market. But it was exceptional, complementary, accessory, transitory wage-labour. The agricultural labourer, though upon occasion he hired himself out for the day, had a few acres of his own land on which he could at all events live at a pinch. The guilds were so organized that the journeyman of to-day became the master of to-morrow." But when the means of production became concentrated in the hands of capitalists all this changed. "Wage-labour, aforetime the exception and accessory, now became the rule and basis of all production; aforetime complementary, it now became the sole remaining function of the worker. The wage-worker for a time became the wage-worker for life."—*Socialism: Utopian and Scientific*, Eng. trans. by Edward Aveling, 1892, pp. 53, 54.

day owned his carrier's cart. Similarly, if the rural worker had his ancient rights in woods and commons and his share in the village fields restored to him, although he might get a simple living for himself he could produce no surplus to exchange for the productions of the towns, and both his labour and the land would be wastefully used when judged from a broad social standpoint.

Necessity for Working in Association

Both the town worker and the country worker are to-day the servants of the owners of the means of production—the machines, the great works and mines, and the land. They can live only if they can get someone to hire them for the profit of the hirer. Nevertheless, it is true that if mankind is to reap the advantage of the science, invention and discovery which in the past hundred and fifty years have increased to an infinite extent our power of producing commodities and enormously extended their range, then men must work, as now, *in association*, every individual playing but a fractional part in any particular undertaking, and the various kinds of undertakings being in turn dependent one on another in the productive process, so that no great industry can have its position affected, either for better or for worse, without affecting the whole. Having to work in association, the producer can achieve industrial freedom and security only by *owning and controlling in association* those means of life with which he works. The tools of industrial production being of such a nature that individual ownership is impracticable, and the possibilities of agriculture and the demands necessary to be made on it being such that petty individual land ownership is undesirable, the only solution is for land and tools of production to be owned by the community. The organs of the community for this purpose are the State and the Municipality. Others may be evolved as the problem of control, as distinct from ownership, is faced—an aspect to be dealt with in a later chapter.

Capitalism always curbed by the State

Now the first thing to be said about this proposal is that it does not involve the introduction of any new principle into our social life.

It means only the extension to its logical conclusion of a principle which has been operating ever since Capitalism came into being, and which has been applied in industry over an ever-widening area. Capitalist industry has never enjoyed complete freedom, except perhaps in its most primitive forms. The State and the Municipality have continually intervened in its affairs in the public interest, and in an increasing number of instances have swept Capitalism out of the field and run undertakings which were formerly in the hands of Private Enterprise. Indeed, the outstanding fact about the history of Capitalism is that it no sooner got a firm foothold than it was found necessary to hedge it round with legal restraints and obligations. The pure principle of Capitalism is "Every man for himself and the devil take the hindmost"; it implies that a person shall be answerable only to himself for the use to which he puts his industrial property, and that there shall be absolute freedom of competition. "The conviction of the master of industry, developed later into a regular economic theory which gave it perhaps a more decent appearance," writes Mr. R. H. Gretton in his study of the middle class, "was that the capital in the industry was his, the machinery and buildings were his, and it was no concern of any other person what were the conditions of his business. It was the workman's own affair if he came to work in those conditions."[2]

But this principle, put into practice, was so destructive in its results for large sections of the community directly, and indirectly for the well-being and commercial prosperity of the nation at large, that the undiluted capitalist principle was modified by the Socialistic principle that the rights of the individual must not be exercised in such a way as to infringe the equal rights of others or to menace the well-being of the community as a whole.[3] Thus it came about that the State had to curb and bridle

[2] *The English Middle Class*, 1917, p. 219. "The middle class," Mr. Gretton writes, "has never had by nature any proper consideration for dependents, or any general sense of duty towards employees," p. 218.

[3] I use this term "socialistic" with some hesitation. Its strict limitations must be borne in mind. Regulation of industry by law is Socialistic in as much as it places general rights above individual claims and subordinates the claims of property to the needs and rights of humanity, but the mere regulation of industry is not in itself Socialism and never can become so. Even though it be ten times what it is to-day, so long as the means of life are the monopoly of a class, so long will the bulk of the people live in poverty and insecurity and be exploited for the profit of an owning class.

Capitalism in order that in the pursuit of profit it might not cheat the consumer, endanger the lives and limbs of its workers and by the moral and physical degradation of the mass undermine the whole basis of national progress and ultimately of national existence.

The Factory Acts

Since 1801 the State has by Factory and Workshop Acts enforced provisions for the health and safety of employees, and restrained the rapacity of capitalists, who, until prevented by the law, employed children even less than eight years old for twelve and fourteen hours a day. Spencer Walpole has observed in his *History of England* that it took twenty-five years of legislation to restrict nine-year-old children to sixty-nine hours work per week, and then only in cotton mills.[4] The death-rate among the textile factory children of at least two generations was enormous. They were choked with the dust from the cotton and wool, and were mangled by falling, often from exhaustion, into moving machinery. John Fielden, the factory reformer, calculated that a child following a spinning machine would walk twenty miles in twelve hours' work.[5] But the fencing of machinery and every other reform was opposed by the capitalist employers. As late as the eighteen-sixties children were employed in the pottery industry before the age of ten working at a poisonous occupation for twelve

[4] Vol. iii, p. 203, quoted by B. L. Hutchins and A. Harrison, *A History of Factory Legislation*, p. 21.

[5] Hammond, *Rise of Modern Industry*, p. 201. The evidence of the horrors of the factory and workshop system in the first half of the nineteenth century is to be found in reports of Select Committees and Royal Commissions. Gross evils were perpetuated in a variety of occupations to a much later date. "My soul is moved," wrote Charles Kingsley, in 1861, "by the abominations which the Children's Employment Committee is said to have brought to light. I am minded to speak earnestly about it in my Chapel Royal Sermon, if between now and then I can get facts enough to speak with authority. . . ." He preached on the subject both in the Chapel Royal, and before the Queen in the private chapel at Windsor, sardonically declaring, "Meanwhile we are sorry (for we English are a kind-hearted people) for the victims of our luxury and neglect . . . sorry for the Sheffield grinders who go to work as to certain death . . . sorry for the people whose lower jaws decay away in lucifer-match factories. Sorry for the miseries and wrongs which this Children's Employment Commission has revealed. Sorry for the diseases of artificial flower-makers. Sorry for the boys working in glasshouses whole days and nights on end without rest, labouring in the very fire, and wearying themselves for very vanity."—*Charles Kingsley: His Letters and Memories*, edited by his Wife, 1883, chap. xix.

hours a day for from 1s. 6d. to 2s. 6d. per week, and in fustian-cutting children were constantly at work for fourteen hours a day.[6] These and other evils were modified only in 1864 by the Factory Act of that year; and it needed the Factory Extension Act of 1867 to prevent women, children, and young persons having to take their meals in rooms where grinding or glass-cutting was being carried on.

Not only has the State had to modify harsh and unhealthy conditions; it has also had to prevent capitalists robbing the workers of their wages. An early form of this was the "truck" system, by which wages were paid, at least in part, in vouchers cashable at a shop kept by the employer, who usually gave wretched value for the money; but the workers were despoiled in other ways also. What is known as the "Particulars Clause" of the Factory Acts is designed to prevent the worker not being paid for what he has actually done, by compelling employers to furnish details of the rate of wages to be paid for a particular piece of work and details of the work—material, etc.—itself. This became operative only in 1895. Another device to ensure fair payment is the indicator, which must be fixed on a spinning mule, and which automatically registers the length of yarn spun, so that the operative can see that he gets paid for what he has performed. The checkweigher appointed by the miners to check the weight of coal sent up and see that it is paid for accordingly is another instance of how it was found necessary to stop what was often nothing less than wholesale robbery of the miners.[7]

The Mines Acts

The history of coal-mining tells the same story as that of factories and workshops—the utter failure of the capitalist owners

[6] Hutchins and Harrison, pp. 153, 154. The pottery industry became so bad that the masters in 1862 themselves asked for legislative interference.

[7] See, for example, Richard Fynes's *The Miners of Northumberland and Durham*, ed. 1923, pp. 52, 54, 55. It was not until 1887 that the miners secured the right to appoint and pay whom they liked as a checkweigher. By the Act of 1860 they could appoint a man actually in the employ of the colliery owner, but when this was done the man was often discharged or hampered in his work. The employers fought for twenty years longer for what was nothing less than the opportunity to cheat the miners.

to make even the most elementary provision for health or safety except under the compulsion of the State. Until prevented by legislation, the mine-owners employed underground even tiny children of six years of age, and employed women like beasts of burden in the mines harnessed nearly naked to trucks.[8] Of the coal-owners' resistance to improvement nothing stands out more prominently than their opposition to the demand that every mine should have two shafts. Pits were for a long period sunk with one shaft only, with the consequence that if anything went wrong with it and it was put out of use the workers were imprisoned in the pit, which frequently became their tomb. For years the miners agitated for two shafts. In January 1862 came the frightful disaster at the Hartley Pit, Durham, where the beam of the pumping engine snapped and a large portion of the engine fell down the shaft, tearing away the walls and blocking it completely. No fewer than 204 men and boys lost their lives—buried alive. "In all the large village of Hartley there was scarcely a house into which death had not been introduced; whilst in some there were two, three, four, and even five dead forms laid out."[9] This holocaust gave a further stimulus to the agitation for two shafts, but it actually took ten more years before this obvious provision for safety was enforced on Private Enterprise by the Coal-mines Regulation Act of 1872.

Shipping, Railway, and Building Regulation

In the case of railways and shipping, not only has the State had to take similar action to force capitalist interests to have proper regard for the health and safety of the workers—for example, until the load-line was introduced by the Merchant Shipping Act of 1876 well-insured ships were at times deliberately overloaded and sailors sent on voyages from which it was a practical certainty they would never return—but it has had to build up a large code of laws for the protection in a variety of directions of the travelling public, out of which railway and

[8] This system has actually survived in the mines of Somerset until this day, although boys and youths are now used instead of women. The Government has now (1927) appointed a Committee to inquire into the matter.

[9] Fynes, *op. cit.*, p. 177.

shipping companies make their profits. And it has all been done in the teeth of the opposition of Private Enterprise.

In the same way the community has had to protect itself from the dangerous and unhealthy buildings, public and private, which Private Enterprise did erect, and would now, without doubt, often erect, but for the building by-laws and sanitary regulations.

Trade Boards Acts

As to the remuneration of the workers, apart from the general failure to provide anything but a low and narrow standard of life for the great majority, Capitalism has resulted in the wages of large classes of employees being at such a shockingly low level that the Trade Boards Acts have had to be applied to trades covering about one and a half million wage-earners. In these trades the State has found it necessary to enforce by law minimum rates of wages, in order that the workers shall be rescued somewhat from the "Song-of-the-Shirt" level in which Capitalism had left them. What a terrible level this was may be inferred from the very low rates which, although raised by the Trade Boards, are even now in force.

In April 1925 there were 45 Trade Boards, and of the one and a half million workers which they covered about 70 per cent. were women and girls. On December 31, 1924, the minimum rate for the "lowest grade of experienced female adult workers" under no fewer than 34 boards was between sixpence and sevenpence per hour. In the "lowest grade of experienced adult male workers" the minimum rate under 15 boards was below one shilling per hour and under only 15 boards was it more than 1s. 1d. per hour.[10]

One might continue and bring under review almost every aspect of our economic life, but to deal in anything approaching detail with the legal restraints which have had to be placed on Capitalism in order to prevent its defrauding the consumer, oppressing the producer, endangering life and limb, and spreading disease would be to write the economic and social history of the last hundred years. We may, however, just glance

[10] *Report of the Ministry of Labour for the Years* 1923 *and* 1924, pp. 256, 257.

somewhat more closely at the way in which Private Enterprise has handled the provision of two of the prime necessities of life—food and water.

Food Adulteration

It is strictly true to say that the capitalist purveyors of food have not hesitated to cheat the consumer in the most flagrant fashion, and have not even drawn the line at putting poison in their goods if to do so meant the reaping of additional profit. These nefarious practices were still in full swing when the nineteenth century was more than half through. In 1855 a Select Committee of the House of Commons inquired into the matter, and the reading of the evidence given before it leaves one wondering, not how many foods were adulterated, and often with poisonous substances, but whether any at all escaped the process. Such essentials as milk, bread and water were very commonly adulterated or impure or both. One witness who had frequently analysed milk described it as "always watered."[11] Nor was the water the only additional ingredient. Chalk and sheep's brains also were used. Bread was "almost universally adulterated with alum,"[12] and other injurious substances also were used. Of the scandalous nature of the water supplied by the water companies something is said later, but we may note here that a witness told the Committee of 1855 that the water of the companies supplied from the Thames, and of other companies, contained "living animal and vegetable productions in great number." Tea, cocoa, and coffee were adulterated in a variety of ways, some of them injurious to health. Carrots and parsnips, as well as chicory, were mixed with coffee, with the result, as one witness stated, that a person who paid a shilling for a pound of coffee received only sevenpennyworth of it.[13]

The less common foods and drinks—and drugs also—were

[11] *Minutes of Evidence*, Q. 766.

[12] *Ibid.*, Q. 812. One recalls Tennyson's lines—

> "While chalk and alum and plaster are sold to the poor for bread,
> And the spirit of murder works in the very means of life."
>
> *Maud*, 10. (Published early in 1855.)

[13] *Ibid.*, Q.s 254, 637, 638.

subject to the same dangerous and fraudulent treatment. Dr. Arthur Hill Hassall said to the Committee:—

It may so happen, and it does undoubtedly sometimes occur, that the same person in the course of a single day receives into his stomach some eight or ten of the articles I have enumerated. Thus with the potted meats and fish anchovies, red sauces, and cayenne at breakfast he would consume more or less bole Armenian, Venetian red, red lead, or even bisulphuret or mercury, or cinnabar. At dinner, with his curry or cayenne, he would run the chances of a second dose of lead or mercury; with the pickles, bottled fruits, or vegetables he would be nearly sure to have copper administered to him; while if he partook of *bon-bons* at dessert there is no telling what number of poisonous pigments he might consume. Again, at his tea, if mixed or green, he would certainly not escape without the administration of at least a little Prussian blue, and it might be much worse things. Lastly, if he was a snuff-taker he would be pretty sure to be putting up his nostrils from time to time, small quantities of either some ferruginous earths, chromate of potash, chromate of lead, or red lead. If an invalid, his condition would be still worse, for then, in all probability, he would be deprived of much of the benefit of his physician through the dilution and sophistication to which the remedies administered for his relief were subjected. This, I would remark, is no fanciful or exaggerated picture, but one based upon the legitimate conclusions derived from the analysis of different articles as sold to the consumer.

The Chairman (Mr. William Scholefield): If he were a very convivial man he might finish the day with a glass of gin and water and take in it a considerable quantity of white vitriol?—Yes, and cayenne.[14]

The Committee reported in 1856, and thus summed up the situation:—[15]

Your Committee cannot avoid the conclusion that adulteration widely prevails, though under circumstances of very various character. . . . Not only is the public health exposed to danger and pecuniary fraud committed on the whole community, but the public morality is tainted and the high commercial character of this country seriously lowered both at home and in the eyes of foreign countries. Though happily very many refuse, under every temptation, to falsify the quality of their wares, there are unfortunately large numbers who, though reluctant to practise deception, yield to the pernicious contagion of example, or to the hard pressure of competition forced upon them by their less scrupulous

[14] *Minutes of Evidence*, Q. 150, 151.
[15] *Final Report*, pp. 3 and 4.

neighbours. . . . Though adulteration has prevailed more or less in all districts, it may be assumed as a rule that the poorer the district the greater the amount of adulteration.

This was seventy years ago. Private Enterprise has survived and the evil has survived with it. In 1874 a Select Committee, reporting on the working of the Adulteration of Food Act, 1872, found that the Act had not been by any means generally adopted by the local authorities—which were then entirely controlled by capitalist interests—and that even where analysts had been appointed their work had not been effective owing to the failure to appoint inspectors. However, the Committee reported some improvement in the general state of things, and in its conclusions said:—

Your Committee believe it will afford some consolation to the public to know that in the matter of adulteration they are *cheated* rather than *poisoned.*

The italics are the Committee's. Whether the passage was written sardonically I do not know. What it was intended to convey was that the consumer still did not get what he paid for, but the matter introduced into his food was not so harmful as formerly. It seems, indeed, to have been a case of having to be thankful for small mercies—a quite common thing before and since under capitalist production.

In 1896 the Select Committee on Food Products Adulteration was able to report that various forms of adulteration which formerly were common, "such as alum in bread and colouring confectionery with poisonous material," had almost disappeared. Nevertheless, aniline dyes were still largely used for colouring foodstuffs, and the law was evaded to a considerable extent. The penalities imposed—the Committee might have said by benches consisting largely of capitalists—were described as "trifling" and quite insufficient to act as a deterrent. "Inexplicable leniency," the Committee added, "has been shown by the magistrates in dealing with adulteration offences." The Committee made a suggestion which might very well be put into operation to-day—that a trader convicted of adulteration should be compelled, in addition to paying a fine, to publish at his own expenses an account of his conviction in the local newspapers.[16]

[16] *Report*, pp. iii, vi, xv, xvi.

Fraud continues despite Legislation

In spite of the seventy-five years of inquiry, legislation, and inspection, Private Enterprise even to-day is still often to be found cheating the consumer and putting harmful ingredients in his food; it still is *unfit to be trusted*, and compels the community to pay for keeping a constant watch on it. The Annual Report of the Ministry of Health published in August 1926 revealed cases of flagrant adulteration. Of 11,201 samples of butter examined 168 were found to be adulterated, some of them containing 29·8 per cent. of water as against the legal limit of 16 per cent. Of the suet sold flaked in packets one-third was, in some cases, not suet at all, but rice and flour. Eight per cent. of the samples of jam analysed were adulterated. Apple pulp was introduced into jam supposed to be made from other fruits, glucose syrup was used instead of cane or beet sugar, and several samples of mixed jam, supposed to be strawberry and apple, or raspberry and apple, were practically all apple. In sweets French chalk and sulphur dioxide were found to have been used to give a white or transparent appearance. A stock of 9,000 Easter eggs had been condemned as containing quartz, glass, zinc, copper, and sawdust. Samples of sugar examined contained coal-tar dye, sawdust, and ground rice.[17]

It is not, of course, contended that every manufacturer or shopkeeper adopts these unscrupulous methods, but under a competitive system there is a strong and inevitable tendency for the most unscrupulous to set the standard, and as competition gives way to combinations the consumer is perhaps even more helpless. In any case, some people—usually the poor, who, having least money, need to get most value for it—have to buy and eat the adulterated products.

Leaving the testimony of Government inquiries and reports, let us take that of a manufacturer himself. Speaking at the annual meeting of the British Federation of Confectioners, Mr. Fred Needler, the managing director of a sweet firm, stated that "many of the common sweets now on the market were not fit for human consumption, and that much of the stuff sold as

[17] Summary of Report, quoted from *The Times*, August 26, 1926.

chocolate contained only 3 to 5 per cent. of chocolate. That was not creditable to manufacturers." Mr. Needler added:—

> The public would not eat the sweets if they knew what they contained. *Manufacturers have been known to purchase sugar salvaged from the bottom of the sea and to make sweets of it for consumption by children.*[18]

Capitalist Companies' Water Supply

Coming now to the case of the water, it may be said that the handling by Private Enterprise of the supply of this vital necessity was largely a scandal from start to finish. The record of many companies now superseded by public authorities may be summed up thus: impure water or insufficient water, or both, and large profits for the water companies. Before the Select Committee of 1855, from the evidence before which we have already quoted, Dr. A. Normandy,[19] a physician and chemist, said:—

> When, therefore, we conceive that the water which is supplied to this metropolis is hardly anything else but diluted mud and sewer refuse; that it contains the excreta of two and a half millions of inhabitants, their daily ablutions, the washings of their foul linen, and filth and refuse of hundreds of factories; the offal of markets; the foul matter of slaughter houses and purulent abominations of hospitals and what not: I think it is astonishing that we are not much worse off, in point of public health, than we really are.

One can hardly quarrel with the doctor's mild conclusion. A long series of Select Committees and Royal Commissions from 1821 almost to the end of the nineteenth century condemned the water companies for the nature of their supply, its inadequacy, the high prices charged for it, and their failure to supply poor people. Three outbreaks of cholera were directly attributable to impure water.[20] But the capitalist interest in water was strongly

[18] *Daily Herald*, January 25, 1926. (My italics.)

[19] *Minutes of Evidence*, Q. 778. A member of the Committee suggested to a witness that a £100 share in the New River Company, one of the London undertakings, was then worth £12,000 to £13,000. The witness could not vouch for the figures, but he knew the increase to be "enormous."—Q. 772.

[20] John H. Warren, *Municipal Trading*, 1923, p. 29. In October 1849 Charles Kingsley wrote to his wife: "I was yesterday with W. and M. over the cholera districts of Bermondsey; and, O God! what I saw! people having no water to drink—hundreds of them—but the water of the common sewer which stagnated full of . . . dead fish, cats, and dogs under their windows. At the time cholera was raging Walsh saw them throwing untold horrors into the ditch, and then

entrenched in the heyday of the capitalist age, and the virtual extinction of the water companies and the substitution of cheap and pure municipal supplies was a slow process. But who now wants to go back to the private water company?

It must be understood that the failure of Private Enterprise in water supply was not due to the fact that in the period in which it covered most of the field the science of engineering was not so advanced as in the later period when municipal supplies were the rule rather than the exception. Things which might have been done the companies neglected to do until compelled. It was only under compulsion that the London companies moved their intakes farther up the river and improved their provision for filtering the water. A pure water supply was a possibility as far back as 1847, when the Royal Commission on the Health of Towns noted that in six of fifty large towns investigated the supply was good; but this was mainly where the supply was in the hands of the municipal corporations.[21]

Short Weight and Measure

So much, then, for the record of Private Enterprise, as far as concerns the reliance which can be placed on the quality of the food and drink which it purveys. Before leaving this subject, however, something must be said of its fraudulent practices relating to the quantity supplied. In spite of the Weights and Measures Act passed as far back as 1878 and the Merchandise Marks Act—aimed at preventing the false description of goods—which became law in 1887, the Food Council, reporting in 1926 on the subject of short weight and measure, recorded that:—[22]

> The local authorities of the country who have had this subject under observation for years past are emphatically of opinion that protective legislation is urgently called for, and is, indeed, long overdue.

In the milk trade the Council found that the giving of short measure appeared to be "astonishingly prevalent," and stated that

dipping out the water and drinking it!. . . And mind, these are not dirty, debauched Irish, but honest, hardworking artisans."—*Letters and Memories*, p. 86.

[21] Warren, *op. cit.*, p. 20.

[22] *Report by the Food Council on Short Weight and Measure*, 1926, p. 8. The Council was set up in July 1925, following the report of the Royal Commission on Food Prices, its duty being periodically to review the food trades and report to the President of the Board of Trade.

it was convinced of the "urgent necessity of legislation." It found that bottles which purported to contain a pint of milk did not always hold a pint. The report states:—

> We understand that these bottles are sometimes sold bearing the words "9/10ths of a pint," or a label stating that no specific quantity of milk is guaranteed. The object of the vendor is fairly obvious: *he hopes that the quantity of milk in the bottle will be mistaken by the public for a pint, and he charges the current price for a pint.* (My italics.)

In the Metropolitan District of Essex short measure in milk was found in 45 out of 63 cases tested—that is, in over 70 per cent. In one case of the supply of milk in bottles, of 130 bottles tested 73 per cent. were found too small to hold a pint. A calculation based on the firm's own returns as to the quantity of milk sold, and on the assumption that only 50 per cent. (instead of 73 per cent.) of the bottles were deficient to the extent of those tested, showed that the firm would make an extra profit by short measure alone of £1,400 per annum.[23] "The instances reported to us," states the Council, "include, amongst many others, the payment for milk on the basis of the quantity actually supplied at 8¼d. per quart instead of 7d., for meat at 1s. 11d. per lb. instead of the marked price of 1s. 8d., and for butter at 2s. 9d. per lb. instead of 2s. 6d."[24]

A trick of the grocery trade noted in the report is the selling of jam by "ones" and "twos" and "threes," of which the Council remarks:—

> We are not at all impressed by the evidence of the English Grocers' Federation that the customer who goes into a shop to buy jam asks for a jar of jam, and that he either buys by price or "the assistant will very likely put different sizes on the counter" for the customer's choice, or says, "One's a shilling, two's so much." The fact is that the customer asks for a 1-lb. pot or 2-lb. pot, and in many cases believes that he is getting that weight in jam.

Evidence given before the Council on behalf of Messrs. W. P. Hartley, Ltd., a firm of jam manufacturers who guarantee the weight of their jam, was that "some manufacturers *deliberately order pots which will not hold the weight of jam purported to be*

[23] *Report by the Food Council on Short Weight and Measure*, 1926, pp. 7 and 23.
[24] *Ibid.*, p. 7.

supplied." (My italics.) The evidence of the Glasgow Inspector of Weights and Measures, and of the London County Council, supported this statement.[25]

To such an extent was the consumer defrauded that the Council recommended that no fewer than twenty-six articles of common consumption should be retailed by net weight only, and, with the exception of bacon and ham, butcher's meat and cheese, that these articles should be retailed only in quantities of two ounces, four ounces, eight ounces, one pound, or multiples of one pound. The Council also recommended that the giving of short weight or measure in the sale of foodstuffs, or the oral misrepresentation of weight or measure, should be made statutory offences. Under the law as it stood the giving of short weight or measure was not an offence unless wilful fraud could be shown. The Weights and Measures Act of 1926 was based on the recommendations of the Council, and thus one more piece of legislation was added to the long list which has sought to check the cheating propensities of capitalist trading.

The first point, then, to be made against Private Enterprise is that only by State regulation has it been possible for the community to tolerate it at all. It appears to be a matter of simple common sense that the public might as well organize and acquire to provide for its own needs as go to the expense of maintaining Government and municipal departments, and administering a vast code of laws and regulations in order to see that capitalist operations are not fraudulent, dangerous and a public nuisance. Opponents sometimes argue against Socialism on the ground that it would create too many officials, forgetting that a large proportion of the officials now employed are made necessary because of capitalist shortcomings—that their job is to force on Capitalism something approximating to fair dealing with the public and decent conditions of employment.

Human Needs not met by Capitalism

But the all-sufficient indictment and conviction of Private Enterprise is that of inefficiency, of failing utterly to fulfil the

[25] *Report by the Food Council on Short Weight and Measure*, 1926, pp. 17 and 18.

function which industry should serve. The true purpose of industry is to produce all those things which are necessary for the healthy maintenance of life and which add to its enjoyment, and to distribute them so that *the whole community* is able to maintain healthy and happy existence. Only if it does this can it justly claim to be efficient. We all know that capitalist industry does nothing of the kind. Capitalism has left the overwhelming majority of the people poor, living narrow and anxious lives—and a large proportion of these miserably poor, wretched, ill-fed, huddled in three-roomed, two-roomed, and one-roomed homes, miserably clad, shivering in winter, festering in utter discomfort in the heat of summer, shut out from all the finer things of life, never knowing holidays, thinking themselves lucky if they can pay the rent and get three sparse meals of the cheapest food every day.[26] Such is the lot of a large class after a century and

[26] The Census of England and Wales of 1921 revealed that the number of families occupying only one room was in the proportion of 36 per thousand; occupying two rooms 105 per thousand, and occupying three rooms 155 per thousand. Thus the homes of no less than 14 per cent. of the families consisted of one room or two rooms and nearly one-third had not more than three rooms. Among the statistics were the following for county areas of quite differents types:—

PROPORTION PER 1,000 FAMILIES IN NUMBER OF ROOMS INDICATED

	One Room.	Two Rooms.	Three Rooms.
London	132	211	235
Northumberland ..	88	241	260
Durham	61	229	260
Devonshire	51	120	164
Carnarvonshire ..	18	83	126
Yorkshire	15	111	214

On a population basis it was shown that in England and Wales 17 per thousand of the population lived in one-roomed homes, 78 in two rooms, and 147 in three rooms. Thus 95 out of every thousand people—nearly 10 per cent.—had not more than two rooms and 242 in every thousand—nearly 25 per cent.—had not more than three rooms. In London 62 per thousand lived in one room, 175 in two rooms, and 238 in three rooms. *Thus 237 per thousand, more than 25 per cent. had not more than two rooms.* In Northumberland 58 people per thousand lived in one room and 229 per thousand in two rooms, so that 287, or *over 28 per cent., had not more than two rooms.—General Tables.*

The Census of Scotland for 1921 showed that out of a population of 4,882,497 the number of people living in one room was 396,866, and the number in two rooms 1,919,082. Thus a total of 2,315,948, or *nearly half the population*, had not more than two rooms.—*Preliminary Report.*

a half of capitalist "progress." By what criterion can an industrial system which produces such results be called efficient?

Public Enterprise and Profit

Private Enterprise, however, is in general efficient for the purpose for which it is, in reality, carried on. That purpose *is not general well-being, but the profit of the capitalist owners of the means of life.* Private Enterprise is not failing in something it is trying to do, for its motive is not, and never has been, the service of the community, but only profit for the profit-making class. Capitalism means that the supply of everything we need is left in the hands of relatively few private persons, who carry on the job whenever they can by so doing get profit from the public; but who, if no profit, or what they deem to be insufficient profit, can be made, cease production and throw their employees on the street, to be maintained at the public expense until wanted again. Socialism means that industry would be owned and run by the community for the community's benefit, the motive being the promotion of the general well-being, and the spreading of that health and happiness and breadth of life which Private Enterprise has so signally failed to provide for all but a very small proportion of the community. The fundamental aim would be service, not profit. This proposition at once brings us up against three questions:—

1. Can Public Enterprise in industry make profits in the sense of a cash surplus on working?
2. If so, is it necessary that Public Enterprise should do so in order to exist?
3. If it be possible, but not absolutely necessary, is profit-making by Public Enterprise desirable?[27]

[27] I must here make it clear that by the term "Public Enterprise" I mean an enterprise owned by the community and managed by such methods as the community may determine. It is necessary to point out this as, owing to the State or municipality having had to buy out private owners, an enterprise may be nationalized or municipalized, in the sense that it is entirely under public control, but may still be paying tribute to those who have received State or municipal stock in exchange for their shares in the undertaking when it was privately owned, or, alternatively, to those who have taken up the loan with which the State or municipality bought the undertaking outright. While an undertaking

The answer to the first of these questions is a matter of demonstration rather than of argument. There is nowadays no doubt whatever that the State and the municipality can, and do, in a great variety of cases spread all over the world, run industrial enterprises at a cash profit, and evidence of this will be found in the following chapter. The answer to the first question is decidedly in the affirmative.

The short answer to the second question is, "No." Unlike capitalist enterprise, which has no reason for its existence unless it produces a profit for the owners of the undertaking, and which will close down if profit, or reasonable hope of profit in the future, ceases, a State or municipal undertaking can be run and serve its purpose at cost. If labour is paid, and sufficient provided for the renewal of materials, buildings, plant, and so on, the undertaking has fulfilled all the financial conditions which are necessary for its continuance. The public gets the benefit of the difference between paying a price which covers cost and renewals, and a price which has to cover, not only those things, but a profit for private capitalists. Although, however, it is not absolutely necessary, not *essential*, to the continuance of a public undertaking, that it shall show a cash profit, it may in certain circumstances be advisable to run the undertaking in such a way as to make such a profit. This brings us to our third question—whether cash profits are desirable.

Various Forms of Profit

The term "cash profit" is used advisedly, for in relation to the question of profit there is this vital distinction between Private Enterprise and Public Enterprise: that cash profit is the only kind of profit which Private Enterprise seeks and for which

has to earn profits to pay such tribute, and also gradually to extinguish the debt, it is not, of course, in the fullest sense a public enterprise—it is not *socialized*. Great benefits may be, and are, obtained for the community even when private individuals still have a direct financial interest in a public undertaking and draw interest from it, but the fullest benefit can, of course, be derived only when all capital has been paid off and the industry is really socialized, and thus becomes a Public Enterprise in the fullest sense and in the sense in which I use the term. There may be instances where, although I keep to the same term for clearness sake, I am referring to an undertaking which still has capital to be paid off. This will be clear from the context.

it has any kind of use, whereas in the case of Public Enterprise profit can take other forms. It can, for example, take the form of enabling another undertaking to be carried on more cheaply than otherwise would be the case—all the benefit of which would accrue to the community if the second undertaking were publicly owned, and probably part of it if it were privately owned.[28] Profit on a public enterprise can also take the form of increasing the health and efficiency of the people, which, apart from the gain to human happiness, enlarges their economic efficiency, and may, in fact, realize cash saving more or less equivalent to the cash profit which is lacking, by causing the people to make less demand on the various forms of public assistance, such as health insurance and, under Capitalism, poor relief.

In the case of Public Enterprise the question of profitableness takes on an entirely new aspect. The essential profit lies *in the service itself*—as good and cheap as it can be made—whether it be the provision of trams or of coal, of boots or of bread, or any other kind of goods or service. Whether a cash profit is shown in the balance sheet or whether revenue just balances expenditure, the service being run at cost, or whether the undertaking is deliberately run at a cash loss, depends on the nature of the service and many other circumstances related to public needs, public finances, and public ambitions.

Where "Losses" pay

Mention of a loss, or even a lack of profit, on a public enterprise is apt to give the non-Socialist and anti-Socialist something of a shock, yet two minutes' reflection would suffice to show that quite a number of public services are run at a cash loss with general approval; indeed, anyone who suggested that they should return a cash profit would be regarded as a crank. Examples of this are public parks, public libraries and public roads. In the

[28] For example, the New South Wales Power Station, a Government undertaking, showed a nominal loss of £4,096 in 1923, but to other State enterprises it supplied cheap power which to them represented a considerable saving. As the Auditor-General's report put it: "Although the power station shows a loss of £4,096 for the year, there have been savings of £11,086 to other State undertakings, or a net profit of £6,990, through its working."—Quoted by Arthur Henderson, M.P., *Labour Magazine*, February 1927.

commercial sense these are unprofitable undertakings; they show a "loss" and are, in fact, kept going by subsidies from the rates. But the profit—the return for the rates expended on them—which these undertakings show takes the form of a healthier, happier and better-informed community in the case of parks and libraries, and in the case of roads the profit lies in the assistance which good free roads give to the development of commerce and the cheapening of production. What would be the fate of a candidate who proposed during his election campaign that there should be a charge for admission to the public parks and libraries in order to stop the shocking loss at which these undertakings are run; or, worse still, what would be his fate if he demanded that toll booths should be erected every mile or so in order that the "loss" on the roads might be stopped? He would certainly not be returned and would probably be regarded as a mild type of lunatic. Yet libraries can be, and are to-day, run as commercial undertakings at a profit, and at one time a direct charge—a toll—was made for all horsemen, vehicles, and cattle using the better roads—the turnpikes—the amount in the case of vehicles varying according to their nature. These charges were levied by the old Turnpike Trusts, thousands of which were established from 1706 onwards to maintain certain pieces of road. The system was widespread until the nineteenth century was well advanced, and although the tolls "led to endless evasions, inequalities, and favouritisms of all kinds, arbitrary exactions, and systematic petty embezzlements," it was not until 1895 that the last Turnpike Trust was abolished and the last toll taken—on the Anglesey section of the Shrewsbury and Holyhead road on November 1st of that year.[29] It is now, however, generally agreed that it pays best to have the roads free and to subsidize them from public funds—the highways rate—just as it is agreed that parks and libraries shall be free and subsidized, and that water, while not absolutely free, shall not bear a charge heavier than will cover cost.

Alternatives to Cash Profit

The question whether it is desirable for the State and municipality in industry to make a cash profit is not one of principle

[29] S. and B. Webb, *Story of the King's Highway*, 1913, pp. 116, 136.

at all, but one of expediency in given circumstances, a question of balancing advantages. For example, all Governments have so far held that it is the business of the Post Office to make a profit, and profits have been made. It has been held, rightly or wrongly, that the national revenue needed this assistance from the Post Office. But it is for the electors, through their representatives, to decide whether they wish this policy to continue. If the annual Post Office profit stands at £6,000,000, would it be wiser to reduce the postal charges to that amount and let the public directly have the benefit of the six millions in that way, and indirectly, perhaps, additional benefit by the cheapening of what is an important factor in certain businesses? It is a matter of public policy for the public to determine for themselves according to circumstances.

The same would apply to the railways if they were the property of the State. Should they be run at a profit, or at cost with lower fares and charges, or with better services, or all three, or with still lower charges and fares and still better services at a loss, the taxes having to make up for the difference? It pays to run the roads at a "loss." If the railways belonged to the nation would it pay to run them also at a "loss," the community more than getting back the value of what it had to find in taxes to make up the deficiency by the great assistance which such a cheapening of transport would be to industry? This would be a matter for discussion and decision according to circumstances. The suggestion is both rational and practicable, however, as applied to State railways; indeed, a year or two back it was seriously put forward by a great capitalist as a sound business proposition. Sir Samuel Instone, in a letter to the Press, suggested that the railways should be nationalized and run at a loss. Charges for freight, he argued, should be purely nominal, and at such a level would repay the loss ten times over. Unemployment would decline, wages would rise and the cost of living fall, and Britain would "recapture the coal markets of the world." All ships laid up would be fully occupied. "All this," Sir Samuel Instone wrote, "can be done at one stroke by the nationalization of the railways. . . . I have always been against nationalization in any form, but I feel now that we are up against conditions which this country has never had to face before. My intention is to make cheap

transport do for Britain to-day what cheap fuel did in the past generations."[30]

Whether the State or municipality in business makes money by any particular undertaking should depend on whether it needs cash for any particular purpose, or whether it would rather sacrifice the cash and take the advantage of cheaper goods or services. These alternatives—running at profit, at cost, or at "loss"—cannot in the nature of things be open to Private Enterprise, which always aims at screwing as much cash profit as possible out of its business, and, of course, puts its gains into its own pockets. Moreover, the public naturally has no say in directing the policy of a private undertaking, whereas in the case of a public enterprise the determination of policy rests with the electors, who will exercise their power according to their alertness in public matters and their political education.

Disposal of Cash Profits

There now arises the question as to the purpose to which profits made by public undertakings should be devoted. Here the first point to be noted is that charges for goods and services produced or rendered by public undertakings are of the nature of a tax. This is clearly recognized in the case of, say, taxes or rates raised to support the Army or the Police; but there is no essential difference between such charges and a fare paid for a municipal tram-ride, or than there would be for money paid for a ton of coal from State mines. They are in every case charges paid to the public revenue for goods or services supplied. This being so, if any profit is made, care must be taken to ensure that it is fairly disposed of, otherwise one section of the community may be taxed for the benefit of another section. This is what happens when town councils dominated by Liberals and Conservatives keep tram fares at a level which will produce a profit, and then use the profits to relieve the rates. The effect of this is to tax the users of the trams for the principal benefit of the large ratepayers. In these days of the wide and increasing use of motor-cars it means that the tram-riders, who tend to be the poorer section of the community, are taxed for the benefit of the motor-

[30] Summary quoted from *New Statesman*, August 22, 1925.

car owners, who are the better-off section. In the same way, if milling and baking were a public undertaking it would be unjust to make profits on bread, which claims a large proportion of the incomes of the poor, and use them to reduce either rates or taxes. No hard-and-fast line can be laid down—especially before the event—as to what industries as public undertakings should make profits, but the principle that such profits are, in essence, additional taxation, and should be regarded as such, is quite clear, and would guide any Socialist administration whether local or national.

From the acceptance of this principle it follows that if profits are made those who have most claim to them are the people who have directly created them—that is, the workers in the undertaking and the users of the undertaking. Thus the proper use to which any profits of State or municipal enterprise should be put is to cheapen the service and to increase wages and improve the conditions of the employees. As public undertakings become larger and more numerous the use of any profit to benefit the workers engaged in them obviously becomes more widespread in its effect. State and municipal employees, like any other employees, are, of course, a section of the public, and a rise in their standard of life is a definite social gain. This is especially so with public undertakings, for wages increased out of profits are not followed by a rise in prices, as is often the case—and always the case taking the field of industry as a whole—with Private Enterprise.

But the question of what should be done with the profits of public trading is not one to be settled by rules previously laid down, but is a matter for the people's representatives as profits come into their hands for disposal. They may do with them as they think fit. For instance, an unusual but legitimate and wholly admirable use of some of the municipal gas profits of the Corporation of Leigh (Lancashire) is the provision of scholarships for elementary school children. It was decided in 1927 that six scholarships should be provided annually for the ensuing four years.

Public Capital not Debt

There is one circumstance in which it is absolutely necessary that public undertakings should make a profit, and that is when money has been borrowed to buy out the undertaking from private

capitalists or to originate it as a community-owned concern. In such an instance a sinking fund is necessary, and in the case of borrowing by local authorities is compulsory by law. To provide for interest and sinking fund a profit, therefore, must be made, but the time will come when the money borrowed is paid off. The industry is then the absolute property of the community, and this particular necessity for cash profit disappears. Profit would similarly have to be made if the State or municipality took over an industry from private capitalists by giving them annuities for a term of years according to the agreed capital value of the undertaking acquired. An example of a municipal undertaking which paid off all the money by which it was purchased is the Glasgow Tramways, which a few years ago became the absolute property of the city of Glasgow. There has since been some borrowing for extensions.

Loans taken up to acquire an undertaking for the public are often referred to as debt, and opponents of Public Enterprise will point to them as such and talk of the "burden of municipal debt." This is neither intelligent nor honest. The so-called debt is the capital of the undertaking. It is no more and no less debt than debentures and shares in a capitalist concern which are subscribed by the public in exactly the same way. But there is this difference: that public undertakings by the creation of a sinking fund steadily pay off their debt whereas a private concern need not do so. Another tactic of opponents is to speak of an undertaking running at a loss when a deficit is shown only after a proportion of the capital—the so-called debt—has been paid off. It is as though a man were buying a house through a building society, and, because he had every year to pay off so much of the principal of the money borrowed, was said to be suffering a loss. He would, of course, all the time be acquiring his house, just as London is acquiring its trams, and at the end of a certain period would own it as a valuable asset, just as London will own its trams. A city cannot buy its trams any more than an individual can buy his house and keep the money untouched at the same time.

Pacific Cable Example

While on this question of profits we may recall that an instance of an intention to run an industry for service rather than for

profit was announced in the House of Commons by a Conservative Minister in the spring of 1927. Mr. Amery, the Minister for the Dominions, was introducing the Pacific Cable Bill, subsequently passed into law. The Bill, in the main, carried out an agreement between the British Government and the Dominions as to the constitution of the Pacific Cable Board and the financing of the undertaking. Mr. Amery revealed how money was advanced by the Treasury to establish the first cable; how since 1914 the cable had "shown a regular and substantial profit"; how, after allocating certain sums to the repayment of capital—Mr. Amery did not call it debt—and putting a certain proportion to reserve, the Governments were at the time he was speaking able to distribute some profits among themselves. But the larger surplus which would be available in the future, the Minister added, might be used to reduce the cable rates, for "he wanted to make it quite clear that the main object of this Imperial cable system was not profits but service—service to the business community of the Empire and the development of inter-Imperial communications."[31]

A Pacific cable is a very important thing, but not nearly so important, because not nearly so primary a need, as the provision of houses, milk and clothing, and other necessities, with which a great majority of the Imperial people of these islands are very poorly supplied. If, then, it be a good thing to run a cable for service and not for profit, why is it not a good thing to provide for greater needs on a similar basis?

The State and Initiative

Those who would reply that it would not be a good thing would, in their answer, lay most stress on the contention that the nature of the organization of Public Enterprise is such that the supply would inevitably be poorer either in quality or quantity, or both, than if the work were left in capitalist hands. In a general way we have already noted that there is no force in this contention, for capitalist enterprise has always gone hand

[31] *The Times*, March 31, 1927. It should be stated that the agreement which the Bill executed was arrived at under the Labour Government, the negotiations on the British side being in the hands of Mr. J. H. Thomas as Dominions Minister.

in hand with widespread poverty. It fails absolutely to supply most people adequately, either as to quality or quantity, with even the prime necessities of life. But the argument occupies such a prominent place in the philosophy of anti-Socialists that it deserves more specific consideration. Mr. J. L. Garvin has stated it, in brief, as follows:—[32]

> Freedom of enterprise is the creative element of economic life. It stimulates the originality of idea, ingenuity of method, boldness of attempt that the routine of public administration tends to stifle or fetter. . . . Fresh initiative and invention never can be the characteristic of Government departments, least of all under democratic conditions, where the dread of hostile criticism is a continual deterrent from attempting any purpose, however successful in the long run, which at first only appeals to a few or to one.

Now, in so far as the "routine of public administration" tends to stifle freedom of enterprise, and "fresh initiative and invention" cannot be characteristic of Government departments, the Socialist maintains that this applies in no greater degree than to all large-scale enterprise, *providing the Government departments are given a fair field and are run by people who believe in them and intend that they shall succeed.* The bigger the enterprise the more slow-moving it must be, and this applies not less to Private Enterprise than to Public Enterprise. The kind of undertaking in which there is greatest "freedom of enterprise," in the sense that there is no need to fear hostile criticism, is the one-man business. The proprietor of such a business can show whatever initiative he is capable of at any time, he can try what experiments he likes and adopt what inventions he likes, always providing—a vital qualification—that he has the necessary resources. If, however, he takes in a partner, the partner must be consulted, and to that extent "freedom of enterprise" is restricted and things move more slowly; and if a third man is taken in they move more slowly still. Now, if the one-man business grows into a huge affair like, say, the Lever Combine, before anything important out of the routine can be done—and growth to this magnitude inevitably involves the creation of a routine and a large number of regulations—there must be meetings of directors and voting, many

[32] *Ency. Brit.*, 13th ed., art. "Capitalism."

consultations of various kinds, and the observance of all kinds of rules, legal and other, which have become part of the constitution of the combine; and if the proposed development cannot be undertaken within the existing regulations, an effort must be made to get them altered or added to, and a Parliamentary Bill—say for the construction of a dock—may even be necessary. The big machine moves slowly, even though in the end it may move efficiently.

It may be said, in answer to this, that though it may be true that as undertakings grow they take on these handicaps, nevertheless it is the fact that Private Enterprise has shown initiative, adopted inventions and carried through many vast and wonderful works. This is not denied, but it is equally true of Public Enterprise, and the belief that it is not the case is merely an illusion, carefully fostered by capitalist interests in the Press and on the platform. Although the large-scale concern moves more slowly, this is compensated for by the larger resources in material and in human ability which it can command, and the economies which the nature of its organization brings about; and in these directions the advantages accruing to Public Enterprise are greater than those which can be realized by Private Enterprise.

Bring the matter for a moment to the test of fact, although the test is, in the main, applied in the next chapter. The State in this country took over the telephones in 1912, and since then there have been the war years and the aftermath of war affecting State undertakings as well as private concerns, yet among many new systems which have been introduced are automatic working, telephone-telegram traffic, and the extension of phonogram working, and at the time of writing experiments with an "absent subscriber's" service are being carried on. Similarly, the Post Office has not been slow to adopt new systems of telegraphy or to develop wireless. Our State printing works are in no way behind private works in equipment, and, indeed, as we shall see in the next chapter, can produce more cheaply than capitalist concerns. The State dockyards are as up-to-date as the best undertakings of a similar kind in private hands; we do not find that, through lack of "fresh initiative and invention," they cannot hold their own. That marvellous undertaking, the construction of the Panama Canal, was a State undertaking. It was carried

out by the United States Government. It was a task which involved an immense variety of human activity and demanded human qualities of every kind. Could it ever have been successfully carried through had there been lacking those characteristics in which State departments and State officials are said by opponents to be deficient—initiative, adaptability, receptivity of ideas, willingness to experiment, and that "ingenuity of method and boldness of attempt" of which Mr. Garvin writes? Most certainly it could not have been.

State Initiative in War-time

The initiative shown by the State in industry during the war is a complete answer to the assertion that the State is incapable of pioneering, as Sir Leo Money has testified from his experience in the Government during the war. He writes:—[33]

> Before the war we knew little about high explosives. . . . Our capitalists had neglected the great chemical industries. Before the Ministry of Munitions could make any improvement in the shell position it had to do important chemical research work. The problems were solved by the Explosives Supply Department with Lord Moulton at its head, which began under the War Office and very largely developed under the Ministry of Munitions. The staff of scientific chemists gave great aid. Thus, in war the scientist obtained his opportunity as he had never obtained it in peace. It is astonishing that anyone should suggest that scientists of the same calibre could not be found to work for the nation in peace if they were given the chance to do so.

Again, the Ministry of Munitions created

> not only new factories, but new industries, new methods, new materials. *It did more for the advance of British industry in three years than had been accomplished by private enterprise in the previous twenty years.* It turned the most unlikely works and workers into efficient producers. (Italics mine.)

A further instance of the initiative shown by the State was the establishment early in 1917 of a new fruit-pulp industry to make profitable use of material hitherto wasted. This was done by the Department of Food Production of the Ministry of Munitions.

[33] *The Triumph of Nationalization*, 1920, pp. 52–3. Sir Leo Money was successively Parliamentary Secretary to the Minister of Munitions and Parliamentary Secretary to the Minister of Shipping, and therefore writes with intimate first-hand knowledge.

Plant was erected on the initiative of the Government for the manufacture of sterilized fruit pulp for use in the making of jams and jellies, the pulp being made from fruit which had hitherto been left to rot. "The new industry was so successful under public management that, despite war conditions, profit was made and a new British industry established without a penny cost to the nation."[34]

The extension of State and municipal enterprise has been one of the most marked features of the economic development of the last fifty years. It has mostly been brought about in the teeth of the opposition of capitalist interests; it has had the fierce light of public criticism beating on it all the time; has had to carry on under the batteries of a Press largely hostile and often unscrupulous; it has had no law of libel to protect it. In the face of such strong opposing forces Public Enterprise could never have enlarged its field as it has done had it been the stupid, wasteful thing which opponents of Socialism would have us believe. It has extended on its merits; experience has proved it to be a good thing, and so the public turns to it more and more as a solution of its problems.

National Organization raises Output

The experience of the war perhaps affords the best proof that there is nothing *inherently* defective in the State as an initiator, owner and controller of industrial enterprise. The war was as much an economic venture as a military one, and it proved the capacity of the State to operate successfully in the industrial field. The organization of the "home front" touched industry at an immense variety of points, and called for adaptability, initiative and experience, and other qualities which are supposed to be absent from State enterprise. The State not only did these things, but it did them because Capitalism either failed to do them or, what amounts to the same thing, did them only at an extortionate price. It was Capitalism which was wooden and wasteful and the State which quickly organized what were practically whole new industries, and did so under conditions of unparalleled difficulty.

[34] *The Triumph of Nationalization*, p. 115.

The war drew not fewer than five millions of the healthiest and strongest producers into the fighting services. Economically considered these men were an army of unemployed. Yet they were maintained by those remaining at work at a standard of living which, for the bulk of them, was higher than that which they had previously regularly enjoyed, and the families of a large proportion of them similarly had their standard of life raised. Production in many directions greatly increased.[35] All this was the result of State enterprise and State organization and the subordinating of profit-making to the public need.

By way of contrast try to imagine what would happen if five millions of the best producers were withdrawn from the service of Capitalism, and the State stood aside and left Capitalism to its own devices. The result would be stagnation and dislocation everywhere, for capitalist industry as a whole has no plan; it is but a chaos of conflicting units, unrelated except by the chances and scrambling of the market. The secret of the success of State industry during the war was largely that the people in charge *meant that it should succeed*. They wanted to win the war, and so put their heart and soul into the job. They worked miracles, but accomplished nothing more wonderful than might be done by others in a similar position equally determined to abolish poverty.

Capitalist Interests obstruct State Enterprise

And here we come to a point of vital importance, namely, that, successful though State enterprise has been, it has never yet had a fair field because its control has never—except during the short period (practically negligible for the purpose) of the Labour Government—been in the hands of people who believed in it and wished it to develop. Indeed, capitalist interests have always carefully watched, and prevented if possible, any extension of Public Enterprise into their own field. The Post Office is a case in point. The reason the Post Office Savings Bank is less convenient than capitalist banks is because the banking interests

[35] "In a single offensive of the Somme five million pounds' worth of shells were fired at the enemy. The productive capacity of the iron and steel industry is said to have been increased by 50 per cent. In a single year the production of blankets for the Army alone exceeded the total production of blankets recorded at the census of production of 1911."—E. M. H. Lloyd, *Stabilization*, 1923, p. 21.

have insisted that it shall be so. In the same way, the capitalist insurance interests have prevented the development of insurance and annuities purchasable through the Post Office. The introduction of the parcel post was delayed through the opposition of the railway companies, which "were not willing to admit a powerful competitor unless they could exact terms clearly favourable to themselves." In the end they extorted 55 per cent. of the total postage on the parcels, although, in the view of experts, the work done by the Post Office was "more nearly two-thirds than half the total expense."[36]

Bankers opposed the issuing of postal orders, and when in 1880 Mr. Gladstone, at the suggestion of Henry Fawcett, the blind Postmaster-General, introduced a proposal to raise the limit of permissible deposits in the Post Office Savings Bank from £200 to £300, and the amount which might be deposited in one year from £30 to £100, the bankers were up in arms. "They argued that this change would involve an interference with private enterprise; and divert large sums now applied to trade and agriculture by the bankers towards investments in Consols. The result of their opposition was that this part of the measure was ultimately withdrawn." To this day a Post Office banking account must not exceed £200, though the yearly limit of deposits is now £50. And just as the Government bowed to the bankers in 1880, so, two years later, it modified proposals for the extension of the insurance facilities of the Post Office in deference to the opposition of the insurance companies. In 1884 another attempt was made to raise the limit of Post Office banking deposits to £300, and again the bankers' influence defeated it.[37] The position was then, has been since, and is now that the same influences which do all they can to prevent the development of public undertakings at the same time accuse those enterprises of being incapable of developing!

Bureaucratic Control not Socialism

It must not, however, be supposed that, successful though the Post Office and other State undertakings, and also Municipal

[36] Leslie Stephen, *Life of Henry Fawcett*, 1886, pp. 417, 418.
[37] *Ibid.*, pp. 427, 428, 430, 435.

undertakings, are, the method by which they are managed is that which is advocated by Socialists. The concentration of control at the centre undoubtedly makes for rigidity of administration and emphasizes that slowness of movement which, as we have noted, is characteristic of all large organizations. The Socialist idea—and of this more will be said in a later chapter—is that the management of enterprises should be in the hands of workers engaged in them, meaning by "workers" every grade of person employed from managers and technical and scientific experts down to those working in the simplest and most routine occupations. The workers in the industry would be responsible for the way in which it serves the community. The effect of this would be that the affairs of the industry would be constantly brought under review by those who best understood them and were most competent to improve it. An enormous field of experience and an immense source of ideas, which under the bureaucratic administration of to-day are not drawn upon, would be made available. The workers in the industry are, moreover, part of the public; they mix with it daily over its whole area and get to know its needs, and the results which would spring from such a contact under the Socialist system of control may reasonably be expected to be more fruitful than they are under the slender tie which now exists between the public and a State department—on the one side the M.P., and on the other the Minister in the House of Commons.

This proposal for the control of industry by those engaged in it is a valid answer to the charge of lack of initiative and general thickheadedness which is to-day brought by capitalist interests against Public Enterprise, for however much or little truth there may be in the charge, it is levelled against something quite different from what Socialism presupposes.

Objections: "Wanting to be the Boss"

This reference to the Socialist idea of how industry should be managed brings to mind certain of the cruder objections which are made against the whole notion of community ownership. It is said, for example, that "under Socialism everyone would want to be the boss," an assertion which is based—and

this many employers know—on a gross misunderstanding of the average person in industry. So far from everyone wanting to be the boss the difficulty often is to get employees to take on responsibility. There is no greater illusion than that everyone has ambitions to be a leader, whether it be of a factory, a trade union, or a religious or philanthropic organization. It is, indeed, the universal experience in organizations of all kinds that the difficulty is in getting new blood on to the committees and into the offices, the management always tending to remain in the hands of a small circle. This is not in itself, of course, a good thing, and we may hope that the greater capacity for, and interest in, work which the public ownership and democratic control of industry should bring into being will create a greater keenness to serve in any sphere required, but the suggestion that Socialism would mean a quarrelsome scrambling for the best jobs is founded neither in experience nor in human nature.

Choosing Occupations under Socialism

A further objection is that, if industry were socialized, there would be no choice of occupation, but that a tyrannical State would make us serve when and where it wished. Now, the first thing to be said about this is that it is difficult to conceive of any condition of society in which the choice of occupation could be less than it is to-day. Not one person in one hundred nowadays deliberately chooses his or her occupation on grounds either of fitness or inclination. Under Capitalism the main anxiety is to get a job of any sort whatever, irrespective of its attractiveness or its fitness for the person taking it up. A wealth of ability of all kinds is thus wasted, is never given a chance, and industry is chock full of square pegs in round holes. The conception of a tyrannical State—something over and above and exterior to the community itself—is a false one. Apart from the fact that Socialism stands for the management of industries by those engaged in them—industrial self-government—the political State moulded by a people sufficiently enlightened to establish Socialism for their greater freedom would never be likely to be endowed with such despotic powers. Indeed, this objection is nothing more than a total misunderstanding of the whole politico-economic

process by which Socialism must come about. It implies that Socialism will be imposed from above on a reluctant or, at best, a dully acquiescent people, whereas Socialism is a movement of the mass, of the overwhelming majority, towards greater freedom, and can be brought about only by the will of the mass, and in the form and by the methods which they determine. As Jaurès had put it—"Destined for the benefit of all, it must be prepared and accepted by almost all, practically, indeed, by all; because the hour inevitably arrives when the power behind an immense majority discourages the last efforts to resist its will. The noblest thing about Socialism is precisely that it is not the regime of a minority. It cannot, therefore, and ought not to, be imposed by a minority."[38]

Society "Overrun by Officials"

A further point put forward by opponents is that Socialism would result in the community being overrun by officials. This immediately raises the question—When is an official not an official? To-day the employees of public bodies are known as officials—but not all of them. The labourer in a municipal gasworks would hardly be given that designation. Is the foreman an official? Is the uniformed turncock of the Metropolitan Water Board an official? The banks are run by capitalist companies, but their staffs are often called bank officials. The term "official" is applied also sometimes to certain of the staffs of great insurance companies; but the office staffs of a great store or a great newspaper office are not called officials. Why not? So far as relations with the public are concerned it seems difficult to point to any characteristic, either of personality or function, which marks off the official from the non-official person. Any comparison is certainly not to the disadvantage of the official. The public official is almost invariably marked by a complete grasp of his job, by conscientiousness in the performance of it and by courtesy and tact in his dealings with the public.

Although the baser newspapers—and this category unfortunately tends to widen as the trustification of the Press proceeds—are continually attacking Civil Servants and public officials

[38] *Studies in Socialism*, p. 131.

generally as incompetent, and making them the target for all kinds of rabbit-brained jibes, the fact is that business men in a position to know believe just the contrary, and to attract a high rank official from the public service to a capitalist concern is considered to be a distinct catch. "It is untrue," declared the late Lord Emmot, the banker and Lancashire cotton magnate, "to say that Civil Servants of high rank are lacking in aptitude for business. On the contrary, the business men are constantly trying to tempt some of them away to private businesses because they find their capacity for work to be of such a high order. The high traditions of the Civil Service extend to the lower ranks."[39] The employees of socialized industry, of whatever rank they might be, would do their job, and experience of public employment, even under the handicaps of administration associated with a capitalist controlled State, justifies the belief that they would do it well. Whether a person is regarded as an official is, as we have seen, largely a matter of nomenclature; it is not determined by whether the employment be public or private. Meantime we may observe that the Public Enterprise postman is not less human, genial and obliging than the Private Enterprise milkman, and if at times we have experienced annoyance at a Post Office counter—frankly, I never have myself—so also we have on occasions in the shop of a private trader.

Private Property under Socialism

The Socialist proposal to bring all industry under public ownership and control leads to the outcry that all private property

[39] Quoted by Philip Snowden, *Labour and the New World*, 1920, p. 99: An example of a highly-placed Civil Servant taking up a post in private industry is the case of Sir Josiah Stamp, who resigned the position of Assistant Secretary of the Board of Trade in 1919 and became a director of Nobel Industries, Ltd. In 1926 he became President of the Executive of the London Midland and Scottish Railway, and at the annual meeting of the railway a year later the Chairman, Sir Guy Granet, said Sir Josiah Stamp had shown "gifts of imagination, sympathy, and, above all, of leadership . . . under his leadership . . . the manner and the speed with which managerial questions are dealt with has given your board the greatest satisfaction and confidence."—*The Times*, February 26, 1927.

A further instance is that of Sir Frank Baines, Director of Works at H.M. Office of Works, who on retiring from the Civil Service in 1927 was appointed Consultant to Imperial Chemical Industries, Ltd., on architectural and structural matters.—*Observer*, September 4, 1927. And is it not the fact that those who have been in the humbler ranks of the public service are on leaving especially valued as occupants of posts which require, if not high intellectual attainments, trustworthiness, tact, and common sense?

will be "confiscated." It is represented that if the Socialists have their way a man who owns a house will have it taken from him, and that even savings in the Post Office and other banks will "become the property of the State." This is pure fiction. The property which Socialism would socialize is property which is used for social ends, but it does not propose to abolish purely personal possession. That is to say, while Socialism would, for example, socialize the boot factories, it would not prevent the individual enjoying the use of his own pair of boots. His boots would not be "common property" which might at any moment be seized by a State official and carried away for the use of someone else—a conception so absurd that I almost apologize for dealing with it, but it is the kind of thing all too frequently put out by anti-Socialists. Similarly, although Socialism would see the building industry a public service, that does not mean that it would take away houses from individual owners lucky enough to possess them. No purpose would be served by so doing. Socialism would prevent the private ownership and use of property to extract profit from the labour of other people, and the private ownership of any property which served a public purpose. To that extent it would abolish private property, but the individual possession of things for personal and family use would continue, with the difference that individual possessions, the good things and the necessary things of life, would with the abolition of Capitalism be much more plentiful than now and much more evenly distributed. There is, indeed, a tragic irony in the anti-Socialist warning to the masses that the Socialists wish to abolish private property when so many of the people have hardly any property to abolish, but possess only what they stand up in, a little cheap and shabby furniture and what is left of the week's wages.

Such, then, are some of the main points in the theory of Public Enterprise in industry. We have now to see with what success Public Enterprise has met in so far as it has been tried. This forms the subject of the next chapter.

CHAPTER VIII

THE SUCCESSFUL PRACTICE OF PUBLIC ENTERPRISE IN INDUSTRY

Nationalization asks for a fair field and no favours, and its advocates are confident that, given this, it will prove in a widely extended sphere to possess immense economic and social advantages over competition and private enterprise.—PHILIP SNOWDEN, *Labour and the New World*, 1921.

Hateful as was the need and hideous the result, yet the temper and methods of war organization still leave a hope that human association may accomplish miracles. The machinery, the technical capacity, the uncanny secrets of science are there to be used; it is only men's minds which refuse to devote them to the service of peace and life.—E. M. H. LLOYD, *Experiments in State Control*, 1924; p. 5.

PRELIMINARY to observing the success of the State and the municipality in industrial enterprise it must be noted that, contrary to carefully fostered opinion, capitalist enterprise is by no means invariably made to pay. In the wide human sense that it has failed to bring about general well-being, this has already been noted, but even in the narrower commercial sense the field of Capitalism is strewn with losses.

LOSSES OF CAPITALIST ENTERPRISE

These losses are not confined to small capitalists, but have been experienced by large concerns with which "captains of industry" are associated. During the year 1926 various companies wrote off about 20 millions of capital. These included Palmers Shipbuilding Company, which wrote off nearly £1,000,000, and Horrockses Crewdson, which wrote off £395,000.[1] In the four years 1923 to 1926 Marconi's Wireless Telegraph Company, Ltd., wrote off £6,000,000, and the directors' report, presented at the beginning of 1927, was described by the *Statist*, an authoritative organ of City affairs, as "one of the most depressing chronicles of failure and mismanagement yet submitted to shareholders."[2] There is also the case of the Belgrave Mills Company, Oldham,

[1] *Daily News*, December 30, 1926.

[2] March 21, 1927.

which from 1919 to July 27, 1925, suffered a total loss of £1,700,000, caused, according to the liquidator, Mr. Wallace Brierley, "mainly through speculation in cotton futures," the net result being a loss of considerably over £500,000.[3] Another instance is that of Vickers, Ltd. In 1915 a committee of investigation appointed to go into the company's affairs, and consisting of Mr. F. Dudley Docker, Mr. Reginald McKenna and Sir William Plender, recommended that no less than £12,442,366 should be written off capital in order to bring the assets to a figure which could "reasonably be regarded as their approximate present value." Of this enormous sum more than £8,000,000, it was proposed, should be taken off the ordinary shares by reducing them from one pound to 6s. 8d. The committee declared that it appeared that the management "had not the special experience required to direct and control so large and varied a body of industrial undertakings, particularly during a period of protracted and severe depression." It recommended also that some directors should retire, that the directorate should be reorganized, and that the company should "dispense with all officials who have not justified their engagements," should "cut down all salaries that are not fully merited," and should "eliminate waste in works management and production."[4] It may be admitted that the transfer of the Vickers concern from a war to a peace footing presented special difficulties, but when every allowance is made it may still be asserted with confidence that if the capitalist Press applied the same standard of criticism to capitalist shortcomings as to what it represents to be shortcomings on the part of public undertakings, some very hard things would have been said following the report on the Vickers concern and the other sensational capitalist losses which have occurred in recent years.

Capitalists "confiscate" Capital

To write off capital by means of reducing the value of shares is to deprive the investors of a certain amount of their investment—to call, say, a one-pound share a fifteen-shilling share, a course which reduces the income received from the share,

[3] *The Times*, December 9, 1925.

[4] *The Times*, December 10, 1925.

though it might so happen that the holder was eventually able to sell the share at above its original face value. It is as much "confiscation" of capital as anything ever associated, however unjustly, with Socialism. True, the consent of the shareholders is formally given to the writing down of capital, but by the time the matter is placed before them they usually have no option beyond allowing the concern to drift from bad to worse and perhaps go into bankruptcy. In so far as the capital is publicly subscribed, the writing off of capital is the loss (or confiscation) of public money. There is no outcry in the Press about the losses of capitalist concerns, but had State or municipal undertakings lost very much less in a single year than capitalist concerns have done in certain years following the war, every device of propaganda would have been requisitioned to show that here was another convincing proof of the inefficiency of Public Enterprise.

Losses by Bankruptcy

Every bankruptcy is a failure of Private Enterprise. During 1925 bankruptcies, compositions, and schemes of arrangement and administration of deceased debtors' estates totalled 4,708. The liabilities represented in the aggregate by these cases totalled £10,617,899 as against assets of only £2,025,474. If we take the seven years 1919 to 1925 inclusive[5] we get this result:—

Years 1919 to 1925 Inclusive

Bankruptcies, Compositions, and Schemes of Arrangement and Administration of Deceased Debtors' Estates.

Number of Cases	25,165
Total liabilities	£70,649,720
Total assets	£17,301,359
Deficiency	£53,348,361

I do not wish to overstress the significance of these figures. They must, of course, be viewed in relation to the commercial operations of the whole of England and Wales. These and the other failures and losses of Capitalism cited are not, of course, positive evidence in favour of Socialism, but it is, nevertheless,

[5] *Seventieth Stat. Abs. for U.K.*, p. 201.

fair and relevant to point out that, even according to the commercial standards set up by Capitalism itself, the operations of the capitalist class are often the reverse of successful. The adage that residents in glass houses should not indulge in stone-throwing is one of which the critics of Public Enterprise may well be reminded.

PUBLIC ENTERPRISE BEFORE THE WAR

Now, in demonstrating the varied nature of Public Enterprise in industry and its success, it will be well first to take a brief glance at the pre-war position; for it must be emphasized that this development is far from being a recent growth, that it has long since passed the stage of experiment, and that when an extension of community activity in industry is advocated there is a long and world-wide record of achievement on which to base firm hope that the new step will justify itself.

I shall not at this point touch on such public enterprises as are well within the public knowledge and experience, such as the Post Office and municipal water, gas, electricity, and trams—these will be dealt with later—but shall aim rather at showing how many-sided were the economic activities of states and municipalities, and how they were distributed throughout the civilized world.[6]

State Railways

For a considerable time before the war all or part of the railways were State-owned in every important country with the exception of Great Britain, and comparisons of rates for goods, passenger fares, and safety of railway workers were strongly in favour of the State systems. On some—not all—State systems there was also a greater freedom from accidents involving passengers than was the case with the capitalist companies of Great Britain. As to rates, Mr. (now Sir Leo) Chiozza Money stated

[6] For instances of pre-war public enterprises I am indebted, except where otherwise stated, to Mr. Emil Davies's book, *The Collectivist State in the Making*, 1914. I have, of course, been able to cite only a few of the cases dealt with by Mr. Davies. Those desiring more information should refer to his wide and extremely informative survey. Many other instances will be found in Mr. Davies's *Case for Nationalization*, 1920.

in the House of Commons on February 11, 1908, that the rate for transport of cutlery from Sheffield to Hull was 20s. per ton, whereas on the German State railways it would be 6s. 9d. per ton. The charge for carrying hardware from Birmingham to Newcastle (207 miles) was 25s. per ton, but from Dortmund to Rotterdam (153 miles) was 10s. per ton. In evidence before the Agricultural Commission in 1905 a representative of the London Chamber of Commerce and the Central Chamber of Agriculture stated that the rate for home potatoes from Harwich to London (70 miles) was 7s. 6d. per ton, whereas the standard rate on the German State railways for potatoes for the same distance was 3s. 9d. per ton.[7]

The privately owned British Railways have been very slow to adopt improvements as compared with, at least, some of the State-owned systems of the Continent. Lord Monkswell—who is not an advocate of nationalization—writing a year or two ago, indicts them on the following important points: I quote his words, the comments in brackets being my own.[8]

Block Signals.—Introduced slowly and unwillingly under great pressure from the Board of Trade [the State], resistance to this reform being finally broken down only when it was enforced by law.

Continuous Brakes.—Ditto.

Use of Superheated Steam.—Question ignored for many years, and nothing done until the question had been worked out by Germany [where the railways are State-owned]. In consequence many millions of tons of coal wasted.

Acceleration of Express Trains.—Whole question boycotted.

Making up Lost Time.—Question ignored, huge waste thereby caused and decided element of danger introduced.

Improved Rail Joints.—Rail joints are more imperfect than any other part of the railway. No serious attempt ever made to find a remedy for the defects in ordinary rail joints.

Introduction of Third Class Sleeping Carriages.—Question boycotted.

Lord Monkswell states that he has never been able to discover any specific instructions given to engine-drivers in this country on the subject of making up lost time, whereas in France and Germany there are definite rules on the matter. On the lack of

[7] Emil Davies, *The Case for Railway Nationalization*, pp. 34, 35, see chap. v of which for statistics showing that passenger fares were lower on State railways.

[8] Preface to *The Railways of England*, 1926 edition.

sleeping carriages in this country, except for first class passengers, he remarks that "the Red Cross trains running in France during the war were in effect third class sleeping carriages."[9]

When the Swiss railways were taken over by the State in 1903 fares were reduced by amounts ranging from 12 per cent. to 20 per cent. In the ensuing five years the number of journeys increased by 25½ millions, an average increase of 11·42 per cent. per annum, as compared with a previous average increase, under private ownership, of 6·89 per cent. per annum. Railway rates were reduced by an average of 10 per cent.[10]

State Steamships

Railways were not the only means of communication successfully carried on by the State long before the war. Some of the fastest vessels in the world were those of the Belgian Government which ran between Dover and Ostend. The Italian Government ran vessels between the mainland and Italian islands, and the Governments of Germany, Denmark, Norway, and Sweden ran giant ferry steamers across the Baltic.

State Cables and Telegraphs

At the end of June 1912, of 317,590 miles of cables in the world 56,832 miles were Government-owned. Telegraphs were run by the State in almost every country. Canada was then an exception, and shortly before the war there were loud complaints of the high charges made by the private companies. The Winnipeg correspondent of the *Financial Times* wrote to his paper concerning the way in which the excessive telegraph charges hampered industry. "The telegraph service of Canada," he reported, "is not run as in England by the Government, but by private companies. Each of the big railway companies has its own system and charges the most extravagant price for its service."[11]

[9] *Railways of England*, 1926 edition, p. 105.
[10] Edgard Milhaud, *The March Towards Socialism*, Eng. ed. 1920, pp. 192, 193.
[11] Quoted in *Collectivist State in the Making*, p. 220.

State Forests and Mines

Another common industrial enterprise carried on by the State was afforestation. Even the British Government made a profit of £500,000 from the Crown forests and lands. The Government of India, however, owned 240,000 acres of forests, and realized on them an annual profit of nearly £2,000,000. The Governments of Germany, France, Russia, America, and Japan were the largest forest owners in the world. In New Zealand the Government owned 10,000,000 acres of land.

Governments were also successfully carrying on mining. There were State-owned coal-mines in Germany, Austria, Hungary, Sweden, Russia, Holland, Australia, and New Zealand. The coal-mines of the Prussian Government were probably the best equipped in the world, and no money was spared "in attempts to minimize the risks of the miners."[12] The State coal-mine established at Powlett River, Victoria, in 1900 had by 1913 made a profit of £41,615. Eleven hundred miners were employed, and the township was laid out on modern lines—a fact which calls to mind that then, as now, a large proportion of the miners employed at the capitalist mines of this country were housed under the most deplorable conditions. In New Zealand there were two State coal-mines which in 1911 were producing one-eighth of the total output of that country. Nor was it only coal-mines that were owned and operated by the State. There were also State iron-mines in Prussia and State salt-mines in Prussia, Russia, Japan, Switzerland, and Rumania. In Scandinavia there were State-owned silver-mines. In many countries the Governments carried on quarrying.

Municipal Trading in Food

Food and drink were a successful field of municipal enterprise. In 1907 municipal shops were opened in a series of Swiss towns, and these retailed commodities at prices much below those at which private traders had been selling. The prices of potatoes fell by amounts varying from 12 to 20 per cent. at Schaffhouse, by 14 to 18 per cent. at Lucerne, and 17 to 24 per cent. at Berne.

[12] *Collectivist State*, p. 46.

Carrots, at Lucerne, dropped 11 to 16 per cent. in price, and in the same town apples fell by 10 per cent. The price for coke at Berne was 15 to 24 per cent. below that charged by capitalist traders, and at Zurich the prices of various combustibles dropped by sums ranging from 29 to 50 per cent.[13]

Several years before the war broke out there were twenty municipal bakeries in Italy. That at Verona, opened in 1909, was reputed to be the finest in the world. It had 45 selling agencies, worked at a profit, and after its establishment the price of bread went down and the quality improved. Later a municipal bakery was started in Budapest. The profit the first year was £1,250. It brought down the price of bread, and in 1911 it produced one-tenth of the bread consumed by a city of 800,000 people. Vienna had a municipal brewery, and there were some municipal vineyards in Germany. Municipal restaurants were common in German and Scandinavian cities, and England boasted at least one—that at Torquay. Chemists' shops run by the municipality numbered more than 30 in Italy in 1909, and at about the same period there were 39 similar shops in Russia and two at Mayence.

Tobacco Factories, Steelworks, and Brickworks

The manufacture of tobacco was a State monopoly in France, Germany, Italy, Spain, Portugal, and Rumania. Cigars and cigarettes were made in the State workshops. Other examples of State workshops were those attached to the railways, but it is of special interest to note that those of Hungary manufactured ploughs and other agricultural implements when railway work was slack. When work runs short in the privately owned workshops of Britain the workers are put on short time. In Japan the Government owned steelworks and supplied private consumers when the foundries were not on Government work. Government brickworks were opened in New South Wales, near Sydney, in 1911. In 1913 the trade loss was £1,397, but as the works had saved Government establishments £7,283 in the purchase

[13] Milhaud, *op. cit.*, p. 178. M. Milhaud states that, following the municipalization laws of 1903, many Italian towns took over the gas supply, with the result that the prices dropped by amounts varying from 24 per cent. at Ast and 30 at Undine to 45 per cent. at Voghera, 50 per cent. at Spezia, and 52 per cent. at Padoue.—p. 177.

of bricks, the net gain to the public since the setting up of the works was £6,678. There were also public brickworks at Tchernivoff, in South Russia, which were set up because the charges of the private manufacturers were exorbitant, and which showed a profit.

Clothing, harness, and saddlery factories were all being run by the Commonwealth Government of Australia before the war.

State Banking and Insurance

Banking and insurance have both been profitably carried on by Governments. The Prussian State Bank was founded in 1810. From 1900 to 1913 its profits varied from 3·64 per cent. to 7·69 per cent., and all were devoted to public purposes. The Commonwealth Bank of Australia was opened in 1912, and has had a successful career. Further reference to this bank will be made later. In some of the Swiss cantons fire insurance had been a State monopoly for many years. The State charges were lower than those of the companies in those cantons where State offices and private offices were in competition. The New Zealand Government established a fire, life, and accident insurance department as far back as 1905, and in consequence the rate for trade risks was reduced 10 per cent., and that for dwellings and offices by 33½ per cent. The Italian Parliament passed an Act making life insurance a State monopoly in 1910, the private companies being given ten years in which to clear out. In Uruguay, also, all life insurance was in the hands of the Government.

Municipal Funerals—and Amusements

While some Governments insured lives, certain municipalities carried on the business of funeral undertakers. This was the case at Paris. At Frankfort the funeral business was all done by the municipality. In Germany 28 crematoria were municipally owned. The charges at Karlsruhe were £1, £1 15s., and £2 10s., and at Leipsic £1 and £2. At that time the fees at the company-owned crematoria at Woking and Golders Green were 14 guineas upward, and at Manchester the fee was £5.

Among the public enterprises catering for pleasure and as health resorts were the tourist bureaux of the Australian and

New Zealand Governments, the municipal spas at Harrogate and Stafford, and at Ems, Kissingen, and other places on the Continent, and the State and municipal theatres. Paris had four theatres run by the State, and in almost every city in Germany there was a municipal theatre.

Municipal Bill-posting

Other examples of public enterprise in industry before the war ranged from bill-posting to the ownership of grain elevators. In many towns in Italy and Germany all the bill-posting was done by the municipality. It was commercially profitable, and much better done than by the private bill-posters of this country. Bills were posted "only on kiosks or special artistic wooden hoardings with elegant frames, as different from the hoardings to which we are accustomed in England as Lake Derwent differs from the Thames at Wapping." Grain elevators were owned and run by the Canadian Government after petitions in which dissatisfaction with the company elevators was expressed.

State Fine Art Factories

In the realm of art, also, the State could hold its own. China and porcelain objects were manufactured by the Governments of France, Prussia, and Saxony, the factories being carried on for the encouragement of art rather than for profit. In the French section at international exhibitions "the exquisite tapestries and furniture from the Government's Gobelins factories and the superb porcelain from the Government works at Sèvres, and prints, etc., from the State printing office, easily carry the palm for beauty."[14] This should give pause to those who hold that while a public authority may perhaps efficiently construct such things as sewers, it is incapable when an undertaking is associated with taste, originality, and variety.

Panama Canal

Of the great public works carried out by Governments the outstanding pre-war example was the cutting of the Panama

[14] *Collectivist State*, pp. 108, 63.

Canal. This, indeed, is probably the greatest undertaking in the world, and the credit of it lies with the United States Government. The construction of the canal meant the organizing of what amounted to a whole community. Forty thousand men were employed, and had to be fed, clothed, and housed by the Government. The work was enormously hampered at the earlier stages by malaria and yellow fever, but State action stamped out these plagues, and actually converted the canal line into a health region.

STATE ENTERPRISE IN INDUSTRY DURING THE WAR

Let us now turn to the success of the industrial undertakings of the State during the war, when, in the words of one who was closely associated with some of them, the economic system was "transformed out of all recognition by the deliberate action of Governments."[15]

Failure of Private Enterprise

The fact that the Government—I shall here confine myself to Great Britain—undertook such vast operations in the industrial field was itself a measure of the failure of Capitalism to meet the situation, for the traditions, political principles, and instincts of those in office were strongly against any such extraordinary action by the State. The State intervened only because the alternative would have been its defeat in the war. It must be admitted that the situation which Capitalism had to face was without precedent, but the State was confronted with the same difficulties. In any case, we are continually told that it is Capitalism which is adaptable, brimming over with initiative, eager to make the most of inventions and explore new ideas, and is full of push and go, and that it is the hand of the State that muddles, or at best slows down and stereotypes, everything it touches. The war revealed that the reverse of this is the truth, providing those

[15] E. M. H. Lloyd, *Experiments in State Control*, 1924, p. 388. Mr. Lloyd held a post in the Raw Materials Section of the War Office, and at another period was Assistant Secretary of the Ministry of Food.

at the head of the State are really in earnest about the State enterprises succeeding.

It is sometimes argued that the State was able to do what it did only because the public "put up" with things which it would not have tolerated in time of peace; but this is to put the cart before the horse with a vengeance. It was from the failure of Capitalism that the public—and the men at the front—had most to put up with. Capitalism produced the weariness of the food queue, with perhaps nothing at the end of it, whereas the State abolished the queue, ensured a regular flow of what supplies could be obtained, and saw that they were fairly shared. Capitalism also produced the shell shortage, and the State remedied it. The war conditions did not make it easier for the Government to act as it did; they made it infinitely more difficult, and the obvious inference to be drawn is that if the State could do so wonderfully well in the face of unprecedented obstacles, working always under great pressure, it could do far better given the much greater opportunities which the relatively easy conditions of peace provide.

National Factories

Of State undertakings during the war let us take first the Ministry of Munitions. This was set up in May 1915, when the war had been in progress nine months. It "covered an immense range of trades and industries; its total expenditure from June 1915 to March 1919 was close on £2,000,000,000."[16] By December 1915, 33 National Factories had been established, and before the close of the war the State factories numbered nearly 400, of which 130 had been built by the State and the remainder taken over from private firms.

The results were startling. Right from the opening of the war—before the Ministry of Munitions was created—the State did better than Private Enterprise. Up to June 1915 private firms had promised delivery of 5,723,900 shell cases, but had actually provided only 1,526,400, leaving arrears of 4,197,500, whereas the National Ordnance Factories had delivered 308,000 as against 292,100 promised, an excess of 15,900 over the number promised. "Among all the chief private firms with shell contracts

[16] Lloyd, *op. cit.*, p. 24.

due for delivery by June 1915 there were only three whose deliveries were even half their promises."[17] Dr. Addison, who as Under-Secretary of the Ministry of Munitions at the time was in the best position to know, gives as some of the reasons for this failure of the private firms the "grabbing of orders irrespective of capacity to execute them," the use of out-of-date machines, and the employment of machines suitable for munitions on other non-essential but profitable work.[18] In fact, the terms "waste" and "muddle" which the opponents of Public Enterprise are constantly flinging at the State would well sum up the fashion in which capitalist interests handled the production of munitions before the State stepped in and showed them an infinitely better way. The term "greed" might fitly be added.

Effect on Output and Prices

The effect of State control of private firms and State factories was quickly felt, both by way of an enormous increase in output and a great fall in prices. We have the authority of Sir Leo Money for the statement that the shell output, which in 1914–15 took *one year* to produce, could in 1916 be produced from home sources alone in the following periods:—[19]

For 18-pounder ammunition ..	3 weeks
For field-howitzers	2 weeks
For medium-sized shells ..	11 days
For heavy shells	4 days

As a consequence of its experience in its own National Factories, and armed with the information it obtained as a result of its power to investigate the costs of private firms, the Ministry in February 1916 secured immense reductions on the contract prices then current for shells. The price of 18-pounders, which stood at 20s. to 23s., was reduced to 12s. 6d.; that of 4·5-inch, which had stood at 47s. to 65s., was reduced to 34s.; and 8-inch, which were at 240s., were cut down to 157s. 6d. These reductions, and those on other shells, saved on the 1916–17 programme, as compared with previous prices, no less than £400,000 *per week* on this

[17] Addison, *op. cit.*, vol. i, pp. 15–16.
[18] *Ibid.*, pp. 17–18.
[19] *Triumph of Nationalization*, p. 50.

kind of ammunition alone, although the lower prices provided 33 per cent. per annum for depreciation of plant, 10 per cent. for depreciation of buildings, 6 per cent. on working capital, and 10 per cent. for repairs to plant, extensions, and small tools.[20]

At that time—the spring of 1915—the National Factories were making 18-pounder shells for prices ranging from 9s. 1d. to 13s. 11d., while the average contract price was 20s. to 23s.; 5·5 inch shells from 31s. 2d. to 54s. 6¼d., as against an average of 47s. to 65s. by contractors; and 6-inch shells for 68s. 10d. as compared with the contractor's average of 80s. to 99s.[21]

Particularly striking instances of the efficiency of the National Factories and the saving they effected are those of the T.N.T. factories and the one for the making of strong sulphuric acid. For the making of T.N.T., six factories were erected at a capital cost of £1,473,000. By April 1917 they had produced T.N.T., which, as compared with what would have had to be paid to private firms for a similar quantity, represented a saving of £2,404,318. The factories had thus paid for themselves and left a balance over of 83 per cent. In the case of the strong sulphuric acid—oleum—a National Factory for its manufacture was started in 1915. By May 1916 the difference between the National Factory price and the lowest price in the United States, where most of this kind of acid was made, was £9 10s. per ton. The national price averaged 55s. per ton as against an average contract price of £12 in the United States and £30 in this country. The saving of £9 5s. on 2,050 tons per week represented £975,050 per annum, whereas the capital cost of the National Factory was only £750,000.[22]

Labour Conditions improved

In spite of its low production costs the Ministry of Munitions established labour conditions and welfare work in its factories which were equal to the best of the private firms and better than most of them. It also raised wages and reduced hours. By May 1917 women workers received 25s. per week and extra for time over 48 hours per week, which, though it was little enough,

[20] Addison, *op. cit.*, pp. 27–8.
[21] *Ibid.*, p. 56.
[22] *Ibid.*, pp. 58, 59.

was about double what women had received for up to 60 hours a week for much factory work before the war, and more than the private firms as a whole would have paid had the Ministry not forced them to do otherwise.

Economy in Staffing

The Capitalist Press has worked hard to create the impression that the War Departments were overstaffed—a comfortable refuge for "limpets," but Sir Leo Money has pointed out that in 1918, when the turnover of the Ministry of Munitions was £672,000,000, its staff totalled 65,142, so that for every person employed, including messengers and charwomen, the turnover exceeded £10,000. "No private business," comments Sir Leo, "could produce such an economical result."[23]

The upshot of it all was the testimony of the then Prime Minister, Mr. Lloyd George, in the House of Commons on August 18, 1919, that "through the costing system and the checking of the National Factories we set up, before the end of the war there was a saving of £440,000,000."[24]

Food Control Achievements

Take now the war-time food control. This demonstrated the capacity of the State to purchase on behalf of the whole nation and distribute through the nation all the more important foods—to do this at a time of the greatest difficulty and, in spite of additional expenses attaching to rationing, to show a small balance on the right side. A large balance was neither sought nor desired—

[23] *Op. cit.*, p. 59. Sir Leo Money points out that the accounts of the Ministry were audited by the Comptroller and Auditor-General, whose duty it is, very properly, "to mark and disclose every unsatisfactory feature in the national expenditure" (p. 59). In 1918–19, when the Ministry spent £531,000,000, the Comptroller noted that there were no vouchers for certain items of £6 10s., £35 14s. 2d., and £5 11s. 4d., and in another report the "loss due to theft and fraud" stood at £412 15s. out of an expenditure of £672,000,000. Ignoring that the general verdict of the Comptroller was favourable to the Ministry, certain newspapers seized on these comparatively negligible items and featured them as examples of "Orgies of Waste," "Spending Orgy," "Noodle and Hoodle," etc., yet near the date of the latter report the newspapers recorded that a private firm of shipowners had been relieved of £23,000 by a girl cashier, and that the London branch of an American bank had been robbed of £10,000 by three boys (pp. 59–60).

[24] Quoted from Money, *op. cit.*, p. 56.

it would have meant only that the public was paying more than necessary for its food. "We were enjoined," states the former Secretary to the Ministry of Food, Mr. Frank H. Coller, "to perform a national service of considerable magnitude, without appreciable loss or gain to the State. We performed that service, and on a turnover exceeding £1,400,000,000 in amount our final accounts disclose a nominal profit of one-half of 1 per cent."[25]

Meat and Sugar

In the case of meat, the Ministry of Food controlled prices from the dock-side to the consumer, and allowed the retailer an average profit of about twopence per pound. Dr. Addison states that if the Ministry had not been able to eliminate "whole groups of intermediate charges" the price of meat, apart from the influence of scarcity, would probably have been at least twice what it was.[26] The chaotic and wasteful methods of capitalist distribution having been restored, the consumer is again having to pay for the privilege of supporting Capitalism.

Sugar was another successful example of State control. The Royal Commission on the Sugar Supplies was appointed on August 20, 1914. Its functions were to purchase, sell, and control sugar. With four-fifths of the normal sugar supplies cut off, the Commission shared out to the whole people what sugar was obtainable, and the Select Committee on National Expenditure reported in 1919 that the work of the Commission, with a staff of fifty-one persons, "has been efficiently carried out without cost to the Treasury." The Commission was always able to buy sugar below the world price. When private importation was again permitted in April 1919, contracts were made at £12 and £13 per ton above the Government price.[27]

How the Bread Subsidy paid

State dealing in wheat was also of immense value to the public. When the Royal Commission on Wheat Supplies issued its second report in 1925, its Trading and Profit and Loss Account showed a net loss of £138,011,673. This was featured in certain

[25] *A State Trading Adventure*, 1925, preface.
[26] *Op. cit.*, p. 47.
[27] Money, *op. cit.*, pp. 98–9.

organs of the Capitalist Press as an awful example of the results of State meddling with business; but a minute's consideration as to what was the function and the achievement of the Commission puts an entirely different complexion on the matter. The Commission imported wheat, and the difference between the price it paid and the price the miller was instructed to charge the baker was made up by a subsidy. When the subsidy came into operation on September 17, 1917, the price of the quartern loaf was one shilling, and even then the consumer was receiving in effect a bonus of 1½d. on the quartern loaf, which was "the difference between the Government or Blue Book freight rate [under the Shipping Control] and what the rate would have been in the open market had not the Government controlled shipping." The object of the bread subsidy was to reduce the price of the loaf to ninepence, and this was achieved.[28] The subsidy was in operation until March 31, 1921, rather more than three and a half years, during which period the consumer saved threepence on every four-pound load, assuming the loaf had remained at one shilling. Without control it would in all probability have risen much higher, but even taking the figure at one shilling the subsidy meant that a family of five eating eight two-pound loaves a week saved two shillings a week, which over the subsidy period of three and a half years works out at a saving of £19 12s. It is true that the "loss" of the Wheat Commission had to be met out of taxation, but this meant that the rich, who even in the absence of a subsidy could and would have bought all the bread they could have got at any price, and who spend only a tiny fraction of their incomes on bread, had to pay a goodly share of the subsidy's cost. The share of this additional taxation borne by a working-class family, who without the subsidy would probably have gone short of bread or alternatively of other food, was nothing approaching the £19 12s. which it was in pocket as a result of the splendid work of the Wheat Commission. There was a loss in the books of the Commission, but a clear gain to the great mass of the nation.[29]

[28] *Royal Commission on Wheat Supplies: Second Report*, 1925, p. 3.

[29] Dr. Addison states that the administrative charges of the Commission worked out at 1s. 2d. per £100 of wheat and flour imported, or one-seventh of 1 per cent.—*Op. cit.*, p. 43.

PEACE-TIME STATE ENTERPRISE IN BRITAIN

Post Office Record of Success

Apart from the enterprises of war-time the biggest State undertaking in this country is, of course, the Post Office. This great concern is of a strictly commercial type, but it is run by the State with a wonderful efficiency and makes some millions of profit every year, all of which benefits the taxpayer. The most recent year's profit was, in round figures, £6,000,000. We have got so used to the Post Office that we take it for granted, but the fact remains that this huge business concern, one of the most vital to commerce and social life, is in the hands of the State and is carried on with complete success. The Post Office so seldom makes a mistake that when it does so the fact is remarked upon—it is an event—people will even write to the newspapers about it, presenting it as an example of what we shall come to if we listen to the Socialists. But the mistakes and discomforts from which we much more frequently suffer at the hands of private traders and capitalist enterprises generally are taken as part of the lot of mankind; we are so used to them. Imagine what would be said if a State undertaking carried people to and from their work in the utter discomfort in which hundreds of thousands of London people travel on the capitalist-owned railways, or if every year it caused tens of thousands of holiday-makers to stand in trains after having paid for seats. Think, too, of the correspondence with which the newspapers would be filled if every time a private trader delivered the wrong goods, or not all the goods ordered, or not at the time promised, people broke out into print about it.

The Post Office has taken on service after service, and always with success. The parcel post, for example—now too familiar to be remarked upon—was in itself a great undertaking, and was generally recognized as such when it was initiated in 1883. "Never before," wrote the *Daily Telegraph*, "did a commercial house leap at once into so gigantic a concern with 15,000 agencies and 35,000,000 possible customers in these three kingdoms; never before, it is thought, was a Government department put to so severe a test as that which twelve days hence will await

the one over which Professor Fawcett presides."[30] Although the railway companies, as we have seen in the last chapter, took 55 per cent. of the postage for doing less than half the work, and although soon after the introduction of the parcel post they lowered their rates and so left the Post Office a larger proportion of the lighter and cheaper parcels than had been anticipated, the new service turned out to be a great success. On August 1, 1893, when it completed its first decade, "the public Press dwelt on the subject, enlarging for the most part on the substantial advantages which had accrued to the public from Mr. Fawcett's successful legislation and praising the smooth action of the post."[31] And the service has been a success ever since, and its latest development of Cash on Delivery has been a further success. According to the present—Conservative—Postmaster-General (Sir William Mitchell-Thompson), the service pays its way, and the rate of postages was, in August 1927, 1,500,000 parcels per annum.[32]

Case of the Telegraphs

The transfer of the telegraphs from the companies to the State on February 5, 1870, was followed by a reduction in charges, a great increase in traffic, and an extension of the telegraphic area, and many of the improvements in the apparatus were made by the Post Office staff, although their conditions of service prevented their getting any reward for these inventions.[33] When in 1911 the State was about to take over the telephones, opponents of the project made a point of the fact that the State telegraphs did not pay. This was true, and for two very good reasons. One was the loss on the special low rate allowed for Press telegrams, which at that time amounted to £200,000 a year;[34] and the other, that the Post Office had extended the service to many

[30] Quoted by F. E. Baines, *Forty Years at the Post Office*, vol. ii, p. 37.

[31] *Ibid.*, pp. 135, 139.

[32] *Observer*, August 7, 1927.

[33] "It speaks volumes for the *esprit de corps* of the Post Office that, although most of the original inventions of modern date—for instance, the Duplex, the Sounder, the Multiplex, the Telephone, etc.—have come from without, all, or nearly all, important improvements of telegraphic apparatus have come from within; no official person, however, having the potent incentive of assured professional gain."—Baines, *op. cit.*, vol. ii, p. 50.

[34] *Parliamentary Debates*, 1911, vol. xxvii, p. 54. Postmaster-General (Mr. Herbert Samuel), June 19th. Last year the loss was £83,000.

districts, especially rural areas, in which it could not hope to pay commercially and which had been neglected by the companies, which, as capitalist concerns out for profit, quite naturally concentrated on the areas in which the traffic was sufficient to make it economically worth while to give a service. As to the first reason, it was, indeed, an ironical situation that newspapers which were criticizing the telegraphic service for not paying were themselves, together with their contemporaries, largely responsible for the loss, and it is not unfair to point out that the newspapers which to-day are for ever brawling against the unemployment insurance benefit, miscalled the "dole," and against housing subsidies and expenditure on social amelioration and improvement generally, themselves receive an annual dole from the Postmaster-General. The collection of their news, by which they live, is subsidized by the British taxpayer. I am not opposing this; but although it is sound policy for the State to give cheap facilities for the collection and spread of information, that does not obliterate the fact of the "dole" to the newspapers or minimize its effects on telegraph revenue. As to the second reason—the loss occasioned by the extension of the service—the person who wants to send an urgent message from some out-of-the-way place and finds a little-used telegraph office available will not be in two minds as to whether the service "pays."

Case of the Telephones

This brings us to the telephone system, concerning which capitalist interests have encouraged the quite baseless idea that the State has made a failure of the service. Although two blacks do not make a white, it is well to recall that the complaints were not first heard when the State took it over. The National Telephone Company came in for its share of criticism. Thus I find, back in 1908, a subscriber writing from no less a place than the Hampstead Constitutional Club in a fine fit of annoyance with the company. His trouble is that he has gone to a call-box, put his twopence in the slot, waited ten minutes, and then been told to put in another twopence. His complaints resulted in his getting no satisfaction. "This," he concludes, "is not the first time I have been kept waiting ten minutes in order to get into

communication with a telephone subscriber." A few days later another correspondent, who has seen the Hampstead Constitutionalist's letter, writes that he, too, has been compelled to pay twice, but he had the consolation of getting his twopence back when he called at the Company's office.[35] There also were complaints from commercial organizations about the charges made by the company.

The telephones were transferred to the State in 1912. By Act of Parliament the Government had previously been granted a monopoly of electric communication, and telephones were held to come within this category. The National Telephone Company, therefore, worked under licence from the Government, and this licence expired on December 31, 1911. Some years previous to that date a provisional agreement had been made for the transfer, and the Company, knowing that it was to be bought out, not unnaturally tended to let things slide. Its plant deteriorated, and, when the Government took over, it entered into a heritage which was anything but up to concert pitch. In spite of this handicap, and although in the year 1913–14 improved pay and conditions cost £158,000 and pensions £243,000, which represented 3 per cent. on the capital employed, a profit of 4·29 per cent. was made.[36]

But before the new State undertaking had a chance to get into its stride the war came and further development was suspended. When the war ended the Government had great difficulty in getting supplies for telephone extension, and the responsibility for this lay with capitalist manufacturers, who could not meet the demand. Allowance, of course, must be made for the post-war difficulties with which the manufacturers were faced, but it remains true that it was their delay, avoidable or unavoidable, and not the Government's, which prevented the shortcomings of the telephone service being taken in hand as quickly as was desirable. If the State had made its own telephone apparatus instead of putting it out to contract, it is probable that the delays would not have been so great. However, capitalist manufacturers must at least share the responsibility. It must be remembered, too, that the telephone service suffered in its personnel by war recruiting just as was the case with all other undertakings public and private.

[35] *The Times*, July 27, 1908, and August 7, 1908.
[36] Money, *op. cit.*, p. 171.

In spite of these difficulties, however, a rapid improvement and extension of the service soon began to take place, and the developments of the past four years are shown by the figures below. They start at the year 1923 because prior to that the statistics included those of the Irish Free State and so would not be comparable with those of a later date:—[37]

DEVELOPMENT OF POST OFFICE TELEPHONE SERVICE

Date.	Mileage of Line (Overhead, Underground, and Submarine).	Number of Exchanges.	Number of Telephone Stations.
At March 31, 1923	91,604	3,204	1,050,672
" " 1924	97,871	3,636	1,158,492
" " 1925	103,574	3,800	1,273,800
" " 1926	110,407	4,019	1,390,153

Thus in the four years ended March 31, 1926, the telephone line, in round figures, increased by 19,000 miles, the number of exchanges by 1,800, and the number of stations by no fewer than 340,000. No wonder we find the Tory Postmaster-General, naturally anxious to take credit for his own Department, telling the public of the "rapidity with which the service has been developed in recent years," and that of the one and a half million telephones in use in 1927 the third half-million had been added in the previous five years[38]—that is, under State ownership.

State Printing saves the Taxpayers

Apart from the Post Office, State undertakings of a strictly industrial nature in this country are few, but so far as they go they are successful. For long there have been printing presses attached to various Government departments—the War Office and the Foreign Office, for example—partly for the carrying out of confidential work, but the amount of Government printing increased to such a scale that in 1919 large general printing works were established at Harrow. They were regarded as an experiment and their continuance was to be the subject of inquiry three

[37] *Seventieth Statistical Abstract for the United Kingdom*, p. 243.
[38] *Observer*, August 7, 1927.

years later. So in 1923 the Government set up a committee to carry out this investigation. There was only one Labour representative on the committee—Mr. C. W. Bowerman, M.P.—its chairman was a high Tory, Colonel Guinness, and the predilections of the committee as a whole were undoubtedly against State enterprise as such. The committee did not report until 1927, and it thus had six years' experience of the Harrow works on which to base its opinions. It had heard everything the capitalist master printers could say against this new State enterprise, to which they were, not unnaturally, strongly opposed; yet this was the conclusion at which the committee arrived:—[39]

> On the accounts for 1924–5, as presented, there is shown a saving to the State from the execution of its own general printing of £81,000 or 23 *per cent.*, on a total value of £436,000. . . .
>
> We think that the existence of State printing establishments able to take the work, if necessary, tends to reduce the prices of contracts, especially those for which there has hitherto been little competition. . . .
>
> To sum up our conclusions in this matter we are satisfied that the general printing now being carried out in State factories is being executed, on the whole, efficiently, and that *a substantial saving has been secured for the relief of the general taxpayer through the existence of Government printing works.*

The Harrow works, the committee reported, were "under efficient management and employing modern methods both as regards processes and machinery. . . . The savings effected by the works in succeeding years have followed an upward curve."[40] The committee was satisfied that the methods of accountancy and costing "afford an efficient method of control and enable a standard by which the several undertakings may be judged."[41] Even so, the committee declined to recommend that the Harrow works should be put on a permanent footing, and suggested that they should carry on until 1930, when the position should be again reviewed.

[39] *Report of the Committee of Inquiry into Government Printing Establishments*, 1927, pp. 71, 82. (My italics.)

[40] *Report*, p. 129.

[41] It should be stated that Mr. E. C. Harmsworth, although a signatory to the report, as he agreed with much that was in it, issued a Reservation in which he opposed State printing on grounds of general principle, and suggested that the only Government printing departments which should be retained were those of the Foreign Office and other departments devoted to work of a confidential nature.

State Clothing Factory

The solitary State clothing factory, the Royal Army Clothing Factory at Pimlico, was the subject of an investigation by the Select Committee on Estimates, which reported that it "is well organized and the system of inspection efficient," and urged the Government to consider the question of working it to its full capacity[42]—a significant enough tribute to its efficiency, seeing that the business of the Committee was to find directions in which public economy could be effected. Clothing for Post Office staffs is not made in a State factory but put out to contract, but the Committee noted that the system of supply was "efficient and economically organized,"[43] thus indicating that in this direction, as in many others, the State was being well served by its postal servants.

State as Brewer and Licensed Victualler

An important field in which the State has proved its capacity to conduct successful business is that of brewer and licensed victualler. I refer to the State Management Scheme in Carlisle and district. Although officially known as a State "management" scheme, the State is the owner as well as the manager. The scheme was begun during the war in most difficult circumstances. The influx into Carlisle of a large population, including thousands of navvies, in connection with munition making, created an acute drink problem, some idea of which may be gathered from this picture by an inhabitant of the City of Carlisle:—[44]

> It is not to be wondered at that scenes of the most nauseating and degrading character became a common occurrence. Men fought like beasts; fierce fights raged round the doors of public houses. The diminished police force was unable to cope with the situation. Almost every alley was littered with prostrate drunken men. The main thoroughfare of Carlisle was Bedlam, and the returning trains to Gretna, with their living freight of cursing, vomiting, filthy-mannered men are memories that cause one to shudder.

[42] *Third Report* (*Supply and Inspection of Clothing*), pp. v and vi.
[43] *Ibid.*, p. vi.
[44] The Rev. G. Bramwell Evens, of the Carlisle Mission, quoted by Ernest Selley, *The English Public House As It Is*, 1927, p. 80.

Start of Carlisle Scheme

It was to cope with such a condition of things with which Private Enterprise was unable to cope, even had it wished to do so, that in the spring of 1916 the State purchased the whole of the liquor interests, both wholesale and retail, in Carlisle and the neighbourhood, the area under State control comprising the City of Carlisle together with the Cumberland Ward and Maryport Petty Sessional Divisions, and certain portions of the Wigton, Longtown, and Cockermouth Petty Sessional Divisions, which are all in the County of Cumberland. That was eleven years ago, and the State scheme is still in being. It has been commercially profitable, it has provided far better public houses than those of Private Enterprise, and it has promoted temperance—so much so that in 1914 the Chief Constable reported that his inspectors, men with over thirty years' police experience, had stated that "from a sobriety point of view they have never known the city so well conducted."[45] The managers—mostly men who were the licensees when the State took over—are paid salaries, and not only has their income ceased to depend upon the amount of intoxicants they sell, but the pushing of intoxicants is discouraged. Many of the houses have been entirely remodelled and are as much cafés as public houses.

Improvements effected by Scheme

Mr. Ernest Selley, an experienced observer with a wide knowledge of the liquor problem, has had occasion to examine the Carlisle scheme on the spot at least once a year every year from 1919 to 1927, with the exception of the year 1918, and among his comments and conclusions are the following:—[46]

> The work of reconstruction and readaptation of premises is continual: the improvement is progressive. Any unbiased observer who had personal knowledge of other towns would, after a complete tour of Carlisle City, agree that the public houses under State control *are, as a whole, the best constructed and the best managed of any he had seen.* This is my judgment tested by experience in scores of towns in this country. . . .

[45] Quoted by Selley, *op. cit.*, p. 106.
[46] *Ibid.*, pp. 96, 105. (Italics mine.)

The usual charge against State undertakings is dull uniformity. In Carlisle you will find great variety of structure. It is in the other towns where uniformity prevails.

Judged by the commercial test alone, the State Management Scheme compares favourably with other brewing organizations, though, on the average, the surplus comparable to the amounts distributed as dividends by private concerns is not so large. It is clear that if the State undertaking . . . were directed by the ordinary profit-making motive, it would be in a position to earn even bigger profits than some of the best-organized brewery undertakings. *Unity of control and concentration of work, both in production and distribution, have led to large economies.*

Profits

A system of State ownership and control similar to that in Carlisle and district operates at Gretna and Cromarty Firth, and the following are the aggregate trading profits of the three areas for the last three years:—[47]

TRADING PROFITS OF STATE PUBLIC HOUSES

Year ended March 31.	Profit.	Capital Employed.
	£	£
1925	110,164	1,091,673
1926	111,923	1,105,530
1927	98,916	1,107,314

These were the profits after meeting all ordinary recurrent charges, including licence and other duties, rates (or contributions in lieu thereof), depreciation of plant, utensils, furnishings and stocks, and after special provision for future repairs and improvements, and writing off the cost of improvements not estimated to add to the realizable value of the properties. Of these items the most interesting is the contribution in lieu of rates, which represents a special sum paid to local authorities to compensate them for loss of ratable value due to the closing down of public-house premises. The number of licensed premises and businesses acquired by the State since the scheme was started is 321, but of these 197 have been shut down.

[47] *State Management Districts* (*Licensing Act*, 1921): *Annual Reports*, 1924–5, 1925–6, 1926–7.

No one ever heard of a combine, when it closes down premises, saddling itself with a special contribution to local authorities to compensate them for the loss of rates, yet a State undertaking acts with this consideration for local public interests and still makes its business pay.

Testimony of Tory Ministers

The three reports I have quoted are signed by two Conservative Ministers—Sir John Gilmour, Secretary for Scotland, and that militant anti-Socialist, Sir William Joynson-Hicks, the Home Secretary—so I cannot refrain from quoting the hopeful and thoroughly satisfied tone in which they write of this Socialistic enterprise, thus:—[48]

> The experience indicates that there is a growing demand for increased seating accommodation, for pleasant and harmonious surroundings, and for the provision of light meals. These demands are largely met in Carlisle already, and they will be met to a still further degree in the improved and reconstructed houses.

And again:—

> Wireless installations have been provided at a number of the houses in the Carlisle district; and the internal arrangements of the Gretna Tavern have been remodelled so as to make them better adapted to present local requirements, and to afford restaurant accommodation up to the best modern standards.

We are also told by these opponents of State Enterprise:—[49]

> In Annan the facilities provided at Gracie's Banking for food and recreation in pleasant and airy surroundings continue to attract increasing appreciation from the public and from visitors to the district.

The Carlisle scheme had by March 1927 repaid all the money advanced by the Exchequer to inaugurate it, and handed over £12,373 to the Exchequer in addition. The money advanced by the Exchequer having been repaid, the profit accruing to it in the future will, of course, he very much greater if, as we may expect, trading profits continue to be made. In short, the scheme has meant the establishment of a profitable State business

[48] *Report*, 1924–5. [49] *Report*, 1925–6.

without the cost of a penny to the taxpayers, and has at the same time improved the drinking habits of the people and added greatly to the social amenities of the locality in which it is situated. Only small amounts of the Exchequer Issues remain outstanding on the Gretna and Cromarty schemes, and these are being reduced annually. There remains to be paid off £69,667 by Gretna and £29,678 by Cromarty.

STATE ENTERPRISE IN THE BRITISH DOMINIONS

Australian Railways and Commonwealth Bank

Glance now at Public Enterprise in the British Dominions. Australia has a considerable number of industries owned and run by the Commonwealth Government, the various provincial governments and the municipalities, and "in the overwhelming majority of cases these ventures have been strikingly successful."[50] The financial position of the State railways, as Mr. Bruce, the Premier, has himself testified, and of which some statistics will be given later, is thoroughly satisfactory, and, in 1924, they earned sufficient to pay all expenses and a sum equal to 4½ per cent. on capital. The Commonwealth Bank, started in 1912, had by 1915 wiped out a deficit due to the expenses of inaugurating the enterprise, and has since made a profit every year. The aggregate accumulated profits in recent years are as follows:—[51]

	£
To June 30, 1921	3,451,365
,, 1922	4,001,659
,, 1923	4,403,987
,, 1924	4,654,673
,, 1925	4,989,230

Woollen Mills

Another successful enterprise of the Commonwealth Government is the Commonwealth Woollen Mills, which in the six years

[50] I am here following, except where otherwise stated, an article written by Mr. Arthur Henderson, M.P., ex-Home Secretary, from first-hand information obtained during a visit to Australia in 1926 with the delegation of the Empire Parliamentary Association.—*Labour Magazine*, February 1927.

[51] *Official Year Book of the Commonwealth Government of Australia*, 1926, p. 386. These profits must be regarded in the light of the fact that the population of Australia is only about 6,000,000

ending 1922 made a net profit of £190,068, in addition to paying a sum of £71,583 in interest on capital. But, apart from this direct profit, the mills were indirectly a source of profit to the public by the saving they effected in the cost of military clothing during the war. As in the case of State factories in this country, the Commonwealth Woollen Mills proved themselves to be of greater value to the public than similar undertakings conducted by capitalists for private profit. The mills made one million pairs of military breeches for 11s. per pair, when the price quoted by private contractors was 30s. per pair. The saving to the public on that contract alone was about £1,000,000. In another contract the price tendered by private firms for police uniforms was £7 10s., whereas the Commonwealth Woollen Mills supplied better uniforms at £3 10s. In the face of such figures it is clear that the capitalist concerns either were relatively very inefficient and had very high production costs, or they sought to reap an enormous profit. In either case the benefits and capacity of Public Enterprise stand revealed beyond cavil.

Queensland Brickworks

Outstanding among the successful undertakings of the Governments of the States of the Commonwealth are the brickworks of Queensland, which have to their credit the double achievement of having greatly reduced the price of bricks and at the same time made large profits for the public. These brickworks were inaugurated in 1911, and they have since repaid the whole of the capital borrowed to establish them. The latest figures available in 1926 showed the Queensland State Brickworks to be selling bricks at 53s. per thousand as compared with 72s. per thousand charged by private concerns.

Queensland Butchery

About four years after it set up its brickworks, the Queensland Government established a State Butchery. In 1926 this enterprise embraced 47 shops. It had made net profits totalling £87,750, and by reducing prices had saved the people of Queensland more than £3,000,000. Prices charged for meat in the State

shops were, on the average, one penny per pound less than in the privately owned shops of Queensland, and *fourpence to fivepence less than the prices prevailing in other States, where the private butchers were not faced with the competition of the State Enterprise.*

Refreshment Rooms

A particularly striking example of the State's producing better results than Private Enterprise is that of the railway refreshment rooms of Queensland. In 1916, the year before the State took over their management, the income received by the State from the rooms was £12,286 in rent from the firms which held the leases. Under State ownership and management the earnings of the undertaking increased, and it not only paid a larger rent—£26,477 to the State Railway Department—but in 1926 made a profit of £15,256. This result was achieved in spite of the fact that the working hours of the staff, which under capitalist management were 77 *per week*, were reduced under State management to 44 per week, with extra payment for Sunday work and overtime and three weeks' annual holiday with pay. In addition, the wages of the waitresses were doubled.

Insurance

The State of Queensland also runs an insurance scheme, and here again capitalist business is put in the shade. At June 1922 this scheme had a reserve of £716,825, although it had reduced accident premiums and doubled benefits. Under the capitalist insurance system, for every £34 paid to the insured about £40 went in expenses and about £26 in dividends. Under the State scheme, out of every £100 received in premiums only £17 went in expenses and, there being no dividends to pay, the balance went to the insured.

Cannery and Pastoral Stations

We have noted in the previous chapter how profitable to New South Wales through provision of cheap power has been the State Power Station, although itself run for a time at a trading loss and being held up by opponents of State Enterprise as a

failure. Other supposed failures are the Queensland State Cannery and the Queensland State Pastoral Stations. The facts are that the cannery is now again on a profit-making basis, and that during the three years in which it suffered a loss the whole of the Australian canning industry had the same experience. As a matter of fact, the deficit on the State cannery was the smallest of any cannery in the country. In the same way the losses suffered by the pastoral station were experienced at a time when all pastoral businesses were in a similar position—in 1921 in consequence of a general slump in cattle prices from the high level of the war period and in 1923 owing to the worst drought which ever swept Queensland. Socialism does not claim to be able to control the weather.

The generally satisfactory position of the Government railways of Australia has already been noted, but some details, together with similar particulars of the Government railways of New Zealand and of the Union of South Africa, may be added, the successful State railways of Canada being dealt with separately. I take the latest figures easily accessible over a series of years:—[52]

RESULTS OF WORKING OF DOMINION GOVERNMENT RAILWAYS

	Total Receipts.	Total Expenses.
	AUSTRALIA	
	£	£
1921	35,936,901	29,969,554
1922	38,194,630	29,817,970
1923	39,524,527	29,513,440
	UNION OF SOUTH AFRICA	
1921	20,807,359	17,214,275
1922	20,146,797	15,523,010
1923	21,594,644	15,980,733
	NEW ZEALAND	
1921	6,434,591	6,237,727
1922	6,727,802	5,520,497
1923	6,984,221	5,403,766

[52] *Fifty-seventh Statistical Abstract for the British Dominions and Overseas Protectorates*, pp. 380 and 382.

A simple calculation on the above figures gives the following result :—

PROFITS OF DOMINION GOVERNMENT RAILWAYS

THREE YEARS 1921–3

	£
New Zealand	3,211,624
Union of South Africa	13,830,882
Australia	24,355,094

The Indian State Railways have been profitable since the war as before the war, and the Canadian Government railways, as we hall now see, have been a marked success.

CANADIAN NATIONAL RAILWAYS

Equally with Australia, Canada demonstrates the practicability and success of Public Enterprise in various fields. Although the Federal, Provincial, and Municipal Governments had tried to prop up the privately owned railways (with the exception of the Canadian Pacific Railway) by money grants totalling 420,000,000 dollars, guarantees of bonds amounting to 400,000,000 dollars and grants of 62,000,000 acres of land,[53] the end of the war found the railways, with the exception named, "confronted with serious and seemingly insuperable difficulties,"[54] and they were nationalized as the only solution of the problem. This addition to the railways already owned by the Government brought the total mileage of Government railways to 22,000, the Canadian Pacific Railway being the only large system remaining in private hands. This step was taken in 1921, and the State system, known as the Canadian National Railways, has made splendid progress. Sir Henry Thornton, the president of the system (he was formerly general manager of the Great Eastern Railway in this country), has stated that while in 1922 the net earnings of the system were slightly less than 3,000,000 dollars, in 1926 the net earnings totalled 48,225,029 dollars, including the Central Vermont Railway, which is owned by the Canadian National Railway.

[53] James Simpson, Vice-President, Trades and Labour Congress of Canada, *Canada's Experiments in Public Ownership*, 1926, 22 pp.

[54] Sir Henry Thornton, President, Canadian National Railways, "*The Times*" *Canada Number*, July 1, 1927.

The ratio of transport expenses to gross earnings dropped from 49·06 per cent. in 1922 to 40·03 per cent. in 1926, and "this improvement was accompanied by a better service and a higher standard of maintenance."

In 1926 the National Railway for the first time earned a sum more than sufficient to meet the interest on all the securities in the hands of the public. "In no small degree," states Sir Henry Thornton, "it has permitted a reduction of income tax and other forms of taxation." What drawbacks there are at present in the financial position of the State railways, we have it on the same authority, are not due in any sense to their being State-owned. "If anything," writes Sir Henry, "what unfavourable conditions there may be in the financial situation are *the inheritance from private administration*. (Italics mine.) Among these conditions must be mentioned the heavy capitalization of the system, now (with unpaid interest due to the Government) amounting to approximately 2,161,046,866 dollars, and the fact that the bulk of the mileage of the Canadian Northern and Grand Trunk was built to be competitive in character and not with any view to consolidation and co-ordination under a unified system."[55] In other words, capitalist enterprise and competition meant the building of more railway than was really necessary—that is, it meant waste.

Qualities which are commonly said to be lacking from State enterprises are not absent from the Canadian National Railways. On this point Sir Henry Thornton writes:—[56]

> The Canadian National Railway system has fully demonstrated that, in so far as service and courtesy are concerned, the officers and men of a State-owned railway are just as loyal, alert, and enthusiastic as those of any privately owned railway which has fallen under my observation. I mention this at this time because of the popular belief on this side of the Atlantic that Government systems are lacking in those elements which have contributed to making privately owned businesses successful, and I feel that conditions as they exist to-day on the Canadian National Railways, both physical and financial, justify the statement.[57]

[55] Sir Henry Thornton, President, Canadian National Railways, "*The Times*" *Canada Number*, July 1, 1927.

[56] *Ibid.*

[57] *The Times* Canadian Correspondent, in an article discussing the Canadian General Election of 1926, remarked (September 14, 1926): "The employees of the National Railways have come to have a great pride in the system, and are intensely loyal to Sir Henry Thornton."

Canadian Hydro-Electricity

An especially successful example of public ownership and control in Canada is the provision of hydro-electricity—particularly in the Province of Ontario, in which the undertaking was initiated and is financed and managed by more than 400 municipalities who work through the Hydro-Electric Power Commission which is constituted by the Provincial Government. Of this great enterprise the Chairman of the Commission, Mr. Charles A. Magrath, states:—[58]

> Every effort is made to supply electrical service to the isolated rural citizens and farmers, provided it can be done upon a reasonably economic basis. The bulk of the electricity retailed by the co-operating municipalities of Ontario is sold at strikingly low prices. For example, more than 80 per cent. of the electrical energy utilized for domestic purposes is sold in municipalities where the average charge to consumers of this class is less than two cents per kilowatt hour, inclusive of all charges. The cost of commercial light and industrial power services is similarly low.

Although the people of Ontario are obtaining electricity at lower rates than are people served by commercial companies, these low rates not only pay for the service, but provide funds for the repayment of borrowed capital, with the result that in less than thirty years all this will have been paid off, the undertaking will be the absolute property of the public, and still further reductions will be possible.[59]

Public Enterprise in the provision of hydro-electricity has a successful record also under other provincial governments and under city government. The undertaking of the City of Winnipeg, for example, has lowered its charges again and again since it was started in 1911. While since 1906 the price of all other necessaries of life has risen, the price of electricity has been substantially reduced.[60]

Canadian Fisheries

The Canadian fisheries provide an effective answer to the oft-repeated assertion on behalf of capitalist interests that Govern-

[58] *"The Times" Canada Number.*
[59] Simpson, *op. cit.*
[60] *Ibid.*

ment "interference" with industry holds it back. The extent and importance of this Canadian fishing may be gathered from the facts that the Bay of Fundy alone covers an area of 8,000 square miles; that the Gulf of St. Lawrence, an extremely fertile fishing ground, is ten times as large; that from the Atlantic coastal waters from 30 million to 40 million lobsters are taken every year; that in 1926 more than 2,000,000 cases of salmon of 48 lb. cans each were packed in British Columbia; that in the same year Canada's fisheries were worth 50,000,000 dollars and that they employ about 70,000 people. This great industry is rapidly growing, yet except in Ontario and a portion of Quebec it is administered by the Dominion Government. "In addition to supervision over all canning operations, all pickled and package fish must be put up in accordance with the requirements of the Fish Inspection Act, and the plants supplying the fresh and frozen fish markets are under continuous supervision." The Government requires the maintenance of a high standard, and the sequel to its interest in the industry is that "there is every reason to believe that it will thrive and develop beyond all past experience."[61] It must not, however, be assumed that the influence of the Government is merely of a regulative and restrictive character. The Dominion Government operates 52 fish hatcheries, which produce about 1,000 million eggs, fry, or older fish every year, and these are supplied free to suitable waters. Stations on each coast under the Biological Board conduct research into the many complex problems associated with the fisheries.[62]

Canadian State Shipping

The Canadian Government Merchant Marine established near the close of the war was at first commercially profitable, but the ships were built at a time of high costs, and when freights slumped after the Armistice losses were incurred, just as they were suffered by private lines. The enterprise, however, was sufficiently promising to lead the Government recently to

[61] W. A. Found, Director of Fisheries, "*The Times*" *Canada Number*.
[62] Simpson, *op. cit.*

inaugurate a new service for the purpose of carrying out a trade agreement with the West Indies.[63]

MUNICIPAL ENTERPRISE IN GREAT BRITAIN

Capital Employed

Next let us turn to municipal enterprise, confining ourselves now to this country. If this form of enterprise were the undesirable and commonly inefficient and dull-witted thing it is often represented by anti-Socialists to be, then one could only conclude that a very serious position has been reached, for the County, Borough, Urban District, and Parish Councils are now in direct administrative control of some two thousand million pounds' worth of capital (subject to a mortgage debt of one-third of that amount), and employ not far short of a million male adults representing about one-twelfth of the whole community.[64]

Great Variety of Undertakings

As a preliminary, let us note how varied municipal enterprise has become. Below is a list of some of the kinds of undertakings now being carried on by the municipalities of Great Britain. Some of them could not properly be classed as industries—schools, for example—but almost without exception they are undertakings of a kind which have been, and somewhere or other are now being, carried on by capitalists for private profit, and they indicate the extent to which the capitalist territory is being invaded by Public Enterprise. Even within this limitation the list does not claim to be exhaustive, and it takes no account of many other highly important duties carried out by local authorities, such as sanitation. Here is the list:—[65]

[63] Since writing this I have seen an article by Mr. Emil Davies in which he states that this State shipping service is now paying its way, and that it is especially developing trade between Canada and the West Indies by forcing down freights and running services which the companies would not give.—*Daily Herald*, August 31, 1927.

[64] Sidney Webb, *Economic Journal*, September 1925, p. 439.

[65] The list has been compiled with the aid of the *Municipal Year Book* the standard work of reference on municipal matters and in which under . . . of the kind mentioned will be found under one or more of the author . . . which particulars are given.

Electricity Supply	Ferries
Gas Supply	Landed Estates
Water Supply	Baths (all kinds)
Trams	Spas
Buses	Quarries
Light Railways	Markets
Fisheries (oyster and mussel)	Canals
Maternity Homes	Docks and Harbours
Gymnasia	Hospitals
Cafés	Libraries
Cemeteries	Abattoirs
Recreation Grounds	Public Lectures
Crematoria	Orchestras
Choir	Golf Links
Cold Stores	Racecourses
Schools and Colleges	Wash-houses
Pleasure Piers	Lodging Houses
Entertainment Pavilions	Telephones
Banking	Bathing Places
House Building	Tram Building

Subway Railway

[NOTE.—Of the lesser known of these enterprises the fisheries are at Falmouth and Colchester; the telephone system at Hull; the subway railway at Glasgow; the choir at Bournemouth; the ferries at Birkenhead (where the Corporation owns twelve steamers) and Wallasey; racecourses at Doncaster, Hereford, and Lincoln; the bank at Birmingham. The first Turkish baths in this country were those of the Bradford Corporation, established in 1865.]

MUNICIPAL ELECTRICITY

Looking closer at some of this varied selection of undertakings, we will first take that of electricity supply. In this the municipalities are far ahead of the companies from the point of view of the consumer. They work more economically, and they supply electricity at a cheaper rate. This is the almost invariable rule. With most issues of the *Electrical Times*, a non-partisan technical journal, there is a supplement giving an elaborate analysis of the costs and supply records of all the electricity undertakings in the Kingdom, and from the figures in the issue for September 1, 1927, the tables which follow have been prepared. London has been selected for comparison because the number of its undertakings makes comparison possible within a reasonable limit of

space, which would not be the case with the several hundred municipal and company concerns in the provinces. An examination of the provincial returns given from time to time in the *Electrical Times* will, however, show results more rather than less favourable to the municipalities as against the companies than is the case with London:—

WORKING COSTS PER UNIT OF ELECTRICITY SOLD IN LONDON

Municipalities.	Year ended March	Total Working Costs per Unit. Pence.	Companies.	Year ended December	Total Working Costs per Unit. Pence.
Battersea ..	1926	0·86	Brompton ..	1926	3·29
Bermondsey ..	1926	1·46	Charing Cross ..	1926	1·96
Fulham ..	1927	1·30	Chelsea	1926	2·80
Hackney ..	1926	0·72	City of London ..	1926	1·45
Hammersmith .	1926	0·96	County of London	1926	1·04
Hampstead ..	1927	1·75	Kensington ..	1926	1·96
Islington ..	1926	1·29	London	1926	0·78
Poplar	1927	1·19	Metropolitan ..	1926	1·62
St. Marylebone	1926	0·80	Notting Hill ..	1926	2·24
St. Pancras ..	1927	1·27	St. James's ..	1926	1·97
Shoreditch ..	1926	1·14	South London ..	1926	1·67
Southwark ..	1927	2·29	South Metrop. ..	1926	1·11
Stepney ..	1926	0·73	Westminster ..	1926	1·85
Stoke Newington	1926	2·08			

A simple calculation on these figures gives the following result:—

AVERAGE WORKING COSTS PER UNIT OF ELECTRICITY SOLD IN LONDON

	Pence.
Municipalities	1·28
Companies	1·71

Thus the working costs of the municipalities are approximately 25 *per cent. lower* than those of the companies.

The next table shows the average prices of the London municipalities and the London companies. By average price is meant the average charged by each undertaking for its total output, made up of private supply, public supply, traction supply, and bulk supply.

AVERAGE PRICE CHARGED BY EACH UNDERTAKING PER UNIT OF ELECTRICITY SOLD IN LONDON

Municipalities.	Year ended March	Average Price. Pence.	Companies.	Year ended December	Average Price. Pence.
Battersea ..	1926	1·46	Brompton ..	1926	4·90
Bermondsey ..	1926	2·17	Charing Cross ..	1926	2·57
Fulham ..	1927	1·84	Chelsea	1926	4·34
Hackney ..	1926	1·59	City of London ..	1926	2·64
Hammersmith ..	1926	1·83	Kensington ..	1926	3·03
Hampstead ..	1927	2·32	London	1926	1·11
Islington ..	1926	2·42	Metropolitan ..	1926	2·30
Poplar	1927	1·58	Notting Hill ..	1926	4·52
St. Marylebone	1926	1·58	St. James's ..	1926	2·87
St. Pancras ..	1927	2·29	Westminster ..	1926	2·54
Shoreditch ..	1926	2·19			
Southwark ..	1927	3·61			
Stepney ..	1926	1·34			
Stoke Newington	1926	2·94			

[NOTE.—Price figures are not given for the County of London Company and the South London and South Metropolitan Companies in the returns here used.]

Calculating from the above table we get the following result:—

AVERAGE PRICE PER UNIT OF ELECTRICITY SOLD IN LONDON

	Pence.
Municipalities	2·08
Companies	3·08

Thus electricity supply in London by Public Enterprise is almost 33 *per cent. cheaper* than that supplied in London by Private Enterprise.

THE CITY CALLS FOR MUNICIPAL SOCIALISM

The City of London is probably the most anti-Socialist centre of the country, and it is, therefore, not without its amusing side when business firms in the City are found loudly complaining of the charges made for electric light by the companies which supply the City, and suggesting that arrangements should be made for getting a supply from the neighbouring municipality of Stepney. When the two companies—the Charing Cross Company

and the City of London Company—proposed at the beginning of 1925 to reduce their secondary charges—that is, a lower charge which comes into operation after a certain level of consumption has been reached—there was complaint that the reduction was not sufficient, and that "the maximum price of 6d. a unit compares badly with the 4d. charged in the neighbouring borough of Stepney"[66]—where there is a municipal supply and, incidentally, a Labour majority on the Council. It was reported at a meeting of City business men that Stepney was willing to supply the City at 4d. and one penny per unit, "and was already supplying another borough on those terms, while it had contributed a substantial sum out of profits in relief of its own rates." One firm had drawn up a comparison between its actual bills for electric lighting and what it would have paid if it had been supplied from Stepney and had found that in three years the difference would have been £2,587. The record of the City's troubles proceeds:—

> The charge of sixpence and fourpence a unit in the City is contrasted, not only with that of fourpence and one penny in Stepney, but with 3¾d. and ¾d. in Edinburgh. While it is admitted that Edinburgh may be favourably placed for securing cheap power, opinion in the City insists that the disproportion between the respective charges must be considered abnormal. *It also lays emphasis on the* 10 *and* 15 *per cent. dividends of the supplying companies and on the very large sums that they are able to carry to reserve.* (My italics.)

We will not linger over this spectacle of the City of London, pained at the high dividends and the carrying of large sums to reserve, and calling on Municipal Socialism to rescue it from what it evidently regards as the depredations of that Private Enterprise to which in politics it so firmly pins its faith.

In spite of their lower charges to the consumer, nearly all the municipal electricity undertakings show a net profit. An examination of the statistics for the year 1925–6, the latest available, gives the following result:—[67]

[66] *The Times*, January 16, 1926, an article in which I am here following.

[67] The statistics are those contained in the *Municipal Year Book* for 1927, in which an analysis of the financial position of every municipal undertaking is given. I have used the same source for what follows on gas, water, and trams.

Number of undertakings	221
Number showing net surplus after loan repayments and meeting loan interest and special charges	207
Number showing deficit after similar payments	14

Of the whole 221 undertakings only one showed an excess of expenses over revenue, that is, a deficit in the true sense. That was the concern at Adwick-le-Street, a small undertaking which had started only the previous year and could hardly have been expected to pay so soon. In that case, however, the loss was only £526. In the case of the thirteen other undertakings which had a "deficit," the revenue did actually exceed expenditure, but under the law as applying to municipal undertakings so much capital has to be paid off every year, and, of course, interest has to be paid on the capital outstanding. For example, for the year 1925–6 the Blackburn electricity undertaking had receipts totalling £169,835 and working expenses £68,679. Thus the surplus of revenue over expenditure was £101,156. A sum of £58,239 was, however, paid off loans—that is, capital—and the interest on loans totalled £65,426, which together caused a "deficit" of £22,509. If Blackburn had not paid £58,239 towards *buying the undertaking* for the town, instead of a "deficit" there would have been a net profit of £35,730. The net profits of municipal electricity undertakings during the year under review ranged from such sums as the following in large towns:—

	£
Birmingham	184,000
Liverpool	135,293
Bristol	95,570
Dublin	82,987
Glasgow	74,231

to the following sums in small towns:—

	£
York	18,366
Luton	8,019
Gillingham	5,517
Darwen	4,944
Bexhill	3,143

Municipal Gas

Take now municipal gas undertakings, among which the result for the same year is only slightly less favourable; thus—

Number of undertakings	161
Number showing net surplus after meeting sinking fund and loan repayments and interest on loans	119
Number showing deficit after similar payments	42

As in the case of the electricity undertakings, the "deficits" were in nearly every case due to the paying off of loan capital and meeting interest on loan outstanding. Thus, although the Manchester enterprise showed a "deficit" of £11,903 after these charges had been met, the excess of revenue over working expenses was no less than £213,268. A sum of £123,109 was paid off loans, and the interest on loans amounted to £102,062. Only four municipal gas undertakings in the year under review failed to show a surplus of revenue over working expenses; in other words, they nearly all paid in the strictly commercial sense, and had they not been under a legal obligation to pay off capital, an obligation which does not apply to private concerns, many could have paid good dividends had they been capitalist companies. Where net profit on gas undertakings was shown it ranged from such sums as the following in large towns:—

	£
Birmingham	86,397
Nottingham	58,322
Bolton	56,610
Coventry	34,316
Middlesbrough	23,503

to such amounts as the following in the smaller towns:—

	£
Newbury	4,345
Evesham	2,395
Morecambe	2,109
Heywood	1,513
Clacton	587

Municipal gas is as cheap as company gas, or cheaper, and the municipalities give better terms for the hiring and fixing of stoves

and appliances. Some, at any rate, of the municipalities fix free, but I have never heard of a company doing so.

Municipal Trams

Municipal trams show much the same profitable record. Thus for the year 1925–6 the results reveal:—

Number of undertakings	93
Number showing net surplus after meeting interest, special charges, and loan repayments	67
Number showing deficit after similar payments	26

In only three cases was there a deficit in the sense that revenue fell short of working expenses, and in one of these—West Ham—the difference was negligible, the receipts being £256,595 and the working expenses £257,841. Where a net profit was shown it ranged from such sums as the following in large towns:—

	£
Glasgow	388,902
Birmingham	259,057
Leeds	147,430
Liverpool	128,146
Edinburgh	72,469

to such sums as these in smaller towns:—

	£
Accrington	6,472
St. Helens	5,133
Maidstone	4,564
Yarmouth	4,960
Southport	3,472

In the year 1925–6 the London County Council tramways, which are ever a target for the more stupid anti-Socialist propaganda in London, earned a revenue of £4,240,761 as against working expenses of £3,634,038, a surplus of £606,723, but after paying a sum of £521,089 as interest and special charges and £156,629 off loan capital there was a so-called deficit of £70,995. Obviously, had the trams not been efficiently managed they could not have produced such a substantial surplus of revenue

over expenditure. It has cost £17,250,000 to acquire and electrify the London County Council tramway system, and of this sum nearly half had by 1926 been paid off out of the system's earnings.

Unfair Burdens on Tramways

The special charges on municipal tramways include the maintenance of the roadway between the track and for eighteen inches on each side of it, although, as a matter of fact, the modern tram does not touch the road at all. The road is worn out very largely by competing 'buses owned by capitalist companies and by heavy commercial motor lorries. As Mr. J. Beckett, general secretary of the Municipal Tramways and Transport Association, has explained,[68] the obligation to repair the road between and adjoining the track was laid down by the Tramways Act of 1870, in the era of horse trams, when the constant tread of the horses did actually wear away the road between the rails. That obligation has remained until this day, although the tram does not now touch the road, but brings a steel wheel to a steel rail. This road charge in 1926 cost the Oldham Corporation tramways 2¾d. for every car-mile run, St. Helens 2⅜d., Swindon 2¼d., and other towns similar or lesser sums down to ¾d. for every mile run. In the face of such a handicap it is doubly creditable to the municipal tramways that they should be so profitable. "If," says Mr. Percy Priestley, the general manager of the Liverpool Tramways, "the motor-bus undertakings were placed on the same footing as tramways and had to provide services at all times of the day, issue workman's tickets at reduced fares, pay the cost of maintenance of the roadways and pay rates on their undertakings —in addition to their premises—it would be impossible for them to give the excellent services now provided by tramways at the present cheap scale of fares."[69]

Other factors which add to the credit attaching to the financial results of municipal tramway working are that when the companies have been superseded by municipal corporations, districts which the companies had ignored as unlikely to be profitable have had the service extended to them for the public convenience, and, further, the working hours of the employees have been

[68] *Observer*, August 7, 1927. [69] *Daily News*, September 9, 1927.

greatly reduced. Companies which have been bought out by municipalities worked the men from seventy to eighty hours a week. At Bradford, within three years of the Corporation's acquiring the trams the number of employees was increased from 340 to 1,040.[70]

Better and Cheaper Water

The water supply is now in the hands of about two-thirds of the county boroughs in England and Wales, of nearly all the non-county boroughs, and about half the urban districts. In London the Metropolitan Water Board took over the companies' undertakings in 1902. Municipal water undertakings do not, in most cases, make a profit; water being such a prime necessity of the community it is, as a rule, supplied as near cost as possible. The figures for the year 1925–6 show that, but for a few exceptions, and after paying off loan and meeting interest on loan, a small profit or a small loss was experienced—often of a few thousand pounds, sometimes of a few hundreds. Among the exceptions were the Fylde Water Board, which made a net profit of £15,575, and the Birmingham Water Department, which had a gross surplus of £371,193 turned into a deficiency of £54,517, after paying £123,961 to sinking fund or loans and £301,317 as interest on loans. At least one Corporation—that of Wallingford, Berkshire—supplies water for domestic purposes free of direct charge, the expenses being met out of the general rate. "As a rule a better supply of water and a reduction of the charges of the supply have resulted from municipalization, and the former has without doubt helped towards the improvement in the public health."[71]

Markets and Abattoirs

Nearly all the municipal markets show a profit, though these are essentially enterprises of a type which bring advantages to the public, apart from any cash return, for "the main benefits derived from municipal ownership are cleanliness, public convenience, and the protection of the purchaser from unsound

[70] F. W. Jowett, *The Socialist and the City*, 1907, pp. 82–3.
[71] *Municipal Year Book*, 1927, p. 698.

food."[72] Municipal abattoirs are in the main run at a small deficit—in the year 1925–6 the deficits seldom exceeded £500—but this is a negligible price to pay for the protection which public abattoirs afford to the consumer. "A large number of the private slaughter-houses, especially in the big towns, are altogether unsuited for the purpose for which they are used; they have an insufficient water supply, have little ventilation, and encourage the storage of animal and other offensive refuse. It is impossible in many of the large towns adequately to inspect and supervise private establishments, and thus to guard against the consumption of unsound and diseased meat. The testimony of municipal authorities who are maintaining abattoirs is practically unanimous as to the sale of diseased meat being rendered difficult and almost impossible under this system."[73] Avoidable suffering to the animals during the slaughtering is also less likely to occur in public abattoirs.

Profitable Municipal Cafés

Take now an undertaking of a type entirely different from the municipal enterprises so far mentioned—the running of cafés. Here, again, we find that Public Enterprise can be completely successful. The Scarborough Corporation owns eighteen cafés, and makes its own confectionery and its own ice cream in its own depot, from which during the course of a season hundreds of thousands of fancy pastries are produced. When the production of ice cream was started on anything like an extended scale in 1919, the output was 800 gallons, but in 1924 it was 6,000 gallons. The turnover of the cafés had then reached £24,000 annually, and in 1923–4 the profit amounted to £3,441. And just as these municipal cafés can provide something other than a cup of tea and a penny bun—which the talk of opponents of Socialism would expect one to believe would be the limit of their resources—so also can they in structure and appearance hold their own with capitalist undertakings. When opening the seventeenth Corporation café at Scarborough the Mayor expressed the opinion that it was "one of the prettiest in the Kingdom," and a reading

[72] *Municipal Year Book*, 1927, p. 750. [73] *Ibid.*, p. 750.

of a description of the building and of its interior indicates that the opinion was well founded.[74]

Municipal Telephones the cheapest

Cafés are far removed in character from electricity, gas, and water supply, but telephones are a kind of undertaking differing from any of them; yet with telephones, too, a municipality can score a striking success. The charges made by the Hull municipal telephone service are *the lowest in the Kingdom*;[75] yet in the year 1926–7, after paying £11,000 in royalties, the system showed a profit of £14,000.[76]

Money saved by Municipal Meals

Just as Hull can succeed with telephones so it can with catering. In that city meals for poor school children were formerly supplied by private caterers at 7d. per meal. The municipal Restaurants Committee (originally the National Kitchens Committee, set up during the war) offered to supply similar meals at fivepence. The offer was accepted, and the Education Committee was saved some hundreds of pounds. The Restaurants Committee then—in 1925—agreed to provide the meals at 4d. per head, and in the event actually did so at 3¼d., a step which saved the Education Committee £800 on the year.[77] This may seem a small matter—relatively to the whole problem it is—but it is, nevertheless, another case in which Private Enterprise has been beaten on its own ground by Public Enterprise, and it is one more of the many instances which prove that Public Enterprise can succeed in those fields now predominantly under capitalist control as well as in great public utility undertakings such as electricity supply, in which its operation is now very widely accepted as desirable, or at least inevitable, by non-Socialists.

Economy of Municipal House Building

From restaurants turn to house building. When a municipal corporation itself builds houses by the employment of labour

[74] See *Municipal Journal*, June 26, 1925.
[75] *Municipal Year Book*, 1927, p. 105.
[76] *Daily Herald*, June 24, 1927.
[77] *Ibid.*, January 13, 1926.

direct, instead of getting them built by contract, the result is almost invariably cheaper houses and work as good or better. Thus at Swansea in the year 1922–3 the Corporation erected fifty four-roomed houses for £419 16s. each, whereas the private contract price was £476 11s. each. Glasgow Corporation from April 1921 to September 1923 erected 116 three-room houses for £534 each, whereas the price of 380 similar houses erected between June 1921 and July 1923 by a contractor in the same district was £707 apiece. Within the same period Glasgow Corporation built 162 four-room houses for £647 apiece, while the contract price of similar houses was £883, and for five-room houses the figures respectively were £731 by the Corporation and £1,008 by contract. West Hartlepool and Salisbury, two very different towns, are among the many others which have had a similar experience.[78] It has been noted, too, that men tend to work better for a municipal corporation than for a contractor. Eston Urban District Council completed a pair of houses by direct labour in twenty-two days, and a record of this declares that, "whatever may be the case under other conditions, a wholesome spirit of emulation seems to be operative where houses are erected by direct labour."[79] Again, Middlesbrough Corporation, starting with barren land, built by direct labour 30 houses in 300 days, 20 of these being finally completed and handed over to the tenants. "The men," it is stated, "worked exceptionally well the whole time," and "every help and assistance was given by the trade unions."

Tram Building

Municipalities have found also that not only can they build houses at less cost than private contractors, but they can do the same with tramcars. Leeds and Glasgow are among the municipalities which have established departments for the building of cars and find that the process saves them money.

[78] *Municipal Journal*, January 24, 1925, which contains many other instances of the success of corporation building obtained as a result of a questionnaire sent out by the Newcastle-on-Tyne Housing Committee. From only one place was the report unfavourable to direct labour.

[79] *Municipal Journal*, February 27, 1925.

Birmingham Municipal Bank

An undertaking of special importance and significance of which there is only one of its kind in the country, and which must be noticed at greater length, is the Birmingham Municipal Bank. The forerunner of this bank was the Birmingham Corporation Savings Bank, which was opened on September 29, 1916. At that time the Government was repeatedly appealing to the public to save money and lend it for the prosecution of the war, and it was this which in Birmingham led to the idea of a Corporation Bank, the project being first suggested by Mr. Neville Chamberlain. A Bill was promoted and introduced in April 1916 which authorized local authorities having a population of 50,000 or over to establish municipal savings banks with the object of facilitating investment in war securities, the banks to be carried on until the latest date fixed for the repayment of any of the securities in which the funds were invested.

Capitalist Banks' Opposition

But then there appeared a lion in the path, the old familiar figure of Private Enterprise in the form of the joint-stock banks. Mr. J. P. Hilton, the general manager of the Birmingham Municipal Bank, tells us:—[80]

> Unhappily, however, the joint-stock banks took fright at the introduction of the Bill, which, rightly or wrongly, seemed to them to be an alarming incursion into a field of which they had hitherto had the sole occupation. So hotly and effectively did they press their objections that, with the cares of other business on their shoulders, the Government did not feel able to proceed with their Bill; which was, accordingly, dropped in the course of the summer.

Restrictions imposed

In July another Bill was introduced, and this went through, but a dominantly capitalist House of Commons, in obedience to

[80] *Britain's First Municipal Savings Bank*, 1927. I am indebted to Mr. Hilton's book for my information about the Bank. His book should be read by every Socialist and every member of a local authority. An excellent edition is issued by the Blackfriars Press at 1s. 6d.

the joint-stock banks, had imposed many restrictions on the projected banks. To begin with only authorities having a population of 250,000 or over were to be allowed to establish banks—which meant that, in any case, only eighteen municipalities in the whole of the Kingdom would have been able to start them. Further, deposits were to be accepted only from employed persons, no individual was to be allowed to accumulate more than £200, withdrawals on demand were to be restricted to one pound, and the bank's life was to be limited to a period ending three months after the end of the war. In addition, there was the important restriction that the investment of the banks' funds was to be controlled by the National Debt Commissioners, and the earning capacity of the invested funds was to be under the control of the Treasury. The result of these rules as to investments was a decision of National Debt Commissioners that the Act confined investments to Treasury Bills and Ways and Means advances. Thus the Birmingham Corporation Savings Bank, which had been under the impression that it would receive at least 5 per cent. on money invested through the Commissioners, that being the yield on war loan, and savings certificates giving a slightly higher yield, never, in fact, received more than $4\frac{3}{4}$ per cent. on its investments and from March 1918 only $3\frac{1}{2}$ per cent., the same rate as it was paying its depositors. The Bank remained loyal to its promise to pay its depositors $3\frac{1}{2}$ per cent., with the consequence that when the war came to an end it had a deficit of £7,149.

No Cost to Ratepayers

This deficit was temporarily shouldered by the Borough Fund, but when the present Birmingham Municipal Bank was founded this sum was paid back out of the money which the depositors in the old bank transferred to the new bank. Thus the undertaking has not cost the ratepayers of Birmingham a single penny.

Help to purchase Houses

The Birmingham Municipal Bank has a record of steady progress and great usefulness. It has now—the autumn of 1927—no fewer than forty-one branches. In addition to its savings

department it has a housing department for making advances for the purchase of houses. This it does on excellent terms. The spirit which actuates this side of the bank may be gathered from the fact that, although in June 1920 it was found necessary to raise the rate of interest on mortgages, when the interest was lowered in May 1922 all those who had bought their houses at the higher rate were allowed the benefit of the reduced rate —a concession which was not granted to people who had bought their houses through various other organizations and were unlucky enough to have contracted their mortgages at a time of dear money.

Water, gas, and electricity accounts can be paid through any branch of the bank—a convenience to the public, who are saved special journeys or the trouble of posting their accounts, and an economy in administration.

Bank's Progress

The progress of the bank—in which there is now no limit to individual deposits—is illustrated by the following figures for the close of its first and its most recent full financial years:—

	March 31, 1921.	March 31, 1927.
Deposit and withdrawal transactions	385,466	1,364,061
Number of depositors	62,119	225,760
Depositors' balances	£1,405,978	£7,800,221
Advances for house purchase ..	£264,088	£2,232,480

[Note.—The total of housing advances at March 31, 1927, is the aggregate of the advances in 1921–7.]

Use of Bank's Funds

What happens to the money lying in the bank? "By arrangement between the bank and the Finance Committee of the Council, 50 per cent. of the money is invested in trustee securities (including £2,000,000 in war loan) and *the remainder is available*

at the discretion of the Finance Committee, for general Corporation purposes and as a set-off or reduction of bank overdrafts on other Corporation accounts."[81] The Corporation pays interest to the bank for the money it uses, and the amount of the interest is agreed upon between the Finance Committee and the Bank Committee. "It is," Mr. Hilton writes, "naturally variable and dependent upon circumstances, *but has always been below the rate which the City Treasurer is prepared to pay for mortgage money or outside borrowing.*"[82] In other words, municipal banking means that a community keeps its money for its own use instead of handing it to capitalist bankers, and it is thus available for public purposes at more favourable terms than could be obtained in the money market in the ordinary way. Further, money put into a capitalist bank is used to make dividends for the bank's shareholders and fees for its directors, whereas the Birmingham Municipal Bank has no dividends to pay and no directors' fees to find. There are no shareholders, and the directors are the Bank Committee of the Corporation who serve voluntarily just as do the members of all the other committees.

Costly Premises not necessary

One point which the Birmingham Municipal Bank well illustrates is the capacity of Public Enterprise to succeed without making an expensive show such as capitalist enterprises, and especially banks, find necessary. The first head office of the Birmingham Municipal Bank was in a semi-basement of the Water Department, and many of the branches, before permanent premises were erected, were housed in all sorts of odd places—a single room in an institute, a disused public house, the ticket office at the baths, a wooden hut. No capitalist bank could hope to attract customers to such premises; on the contrary, such banks commonly find it necessary to build premises of a particularly imposing and costly type replete with granite, marble, and mahogany. The permanent premises of the Birmingham Municipal Bank, while having the appearance of substance and dignity and being in every way suitable for the purpose, are on

[81] Hilton, *op. cit.*, p. 205. (My italics.)
[82] *Ibid.*, p. 206. (Mr. Hilton's italics.)

nothing like so extravagant a scale as is often the case with capitalist banks.

Other Towns demand Powers

A word of explanation must be added as to why Birmingham is alone in the possession of a bank of this kind. The reason is that between the time in which the joint-stock banks secured the withdrawal of the original Bill and the passing of the second Bill most towns had set up savings associations, and as the primary object of the bank project at that time was the collection of money for the carrying on of the war, other towns took no steps to establish a bank; in any case, as we have seen, only eighteen would have been able to do so under the population limit laid down. At the close of the war Birmingham, already in the field, was in a strong position to secure permanent powers; indeed, without them 24,000 depositors in the original bank would have had to have their money returned to them. Since then several municipalities have sought power to establish banks when promoting Parliamentary Bills, but at the request of the Treasury the bank clause has been withdrawn. Wigan and Stoke-on-Trent insisted on letting it go forward, but it was thrown out by the Local Legislation Committee. At the moment of writing a committee appointed by the Chancellor of the Exchequer is inquiring into the desirability of giving municipalities general powers to set up banks.

Financial Soundness of Municipal Undertakings

This sketch of some aspects of municipal enterprise may be closed with an authoritative comment on the real nature of municipal debt, as it is this "burden" which capitalist interests are so apt to use as a bogey with which to scare electors from supporting Socialists at the polls. Mr. F. Ogden Whiteley, City Treasurer of Bradford, places the outstanding aggregate "debt" of all the municipalities in 1921 at 600 million pounds as compared with 137 millions forty years previously, and he adds:—[83]

[83] *Municipal Journal*, April 3, 1925. (My italics.)

It should, however, be borne in mind that this municipal debt has been entirely incurred for constructional purposes, and valuable assets exist side by side therewith; the major portion is represented by trading undertakings *which would (if opportunity were offered) be bought up with avidity by companies at prices much in excess of the gradually reducing debt.* In contrast with this, the National Debt of some 8,000 million pounds has been largely contracted in the prosecution of devastating wars, the money having been blown away into "eternal nothingness."

In connection with this problem of "debt" it is important to remember that there is as yet no instance of a private undertaking having been taken over by a municipality when Labour was in control. There can be no doubt that capitalists, with their class dominant in both Parliament and local government, have, with the help of their friends, often obtained very favourable terms—not to put it more strongly. Take the case of the buying out of the London water companies. Immediately prior to their transfer to the Metropolitan Water Board, the capital of the companies was £22,900,000, but the price the Board had to pay for the acquisition of their undertakings was no less than £46,939,914—a sum fixed by Parliament and the Court of Arbitration set up by the Metropolis Water Act, 1902. This meant that while the companies' capital worked out at £22 13s. 7d. per service, the sum paid by the Board to the companies was equivalent to £46 9s. 9d. per service.[84] All this enlarged capital has to be paid off by the public undertaking and on what is outstanding interest has to be paid. Similarly, when the Government took over the telegraphs, at a time when Parliament was filled entirely with representatives of the capitalist and landed interests, the price paid the companies was one which experts have since held to have been much in excess of the real value of the companies' assets. Labour and Socialist administrations, both national and local, would have a much stricter regard for the public interest, and, while willing to pay for value received, would take every care to see that the capitalists did not make a "good thing" out of the deal.

Finally, it should be borne in mind that the excellent results of municipal enterprise here set forth, and of State undertakings,

[84] A. H. Tozer, Chairman, Finance Committee, Metropolitan Water Board, quoted by Davies, *Collectivist State*, pp. 238–9.

have, so far as they relate to the post-war period, been secured in a time of exceptional trade depression.

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In the space of a single chapter I have, of course, been able to cite but comparatively few examples of the successful practice of Public Enterprise in industry, but they have, I think, differed so greatly in type, have been so widely distributed as to locality, and have covered such a period of time as to completely rebut such assertions as this:—[85]

> The public services were more costly and less efficient on the whole than those run by private enterprise in competition.

The author of this utterance is Mr. W. L. Hichens, chairman of Cammell, Laird & Co., the shipbuilders. I select it, not because it is exceptional, but because it is typical of the statements which are repeatedly flung at community enterprise by capitalist interests. Such statements are completely at variance with the facts of the case, and make it self-evident that those who utter them have never troubled to inform themselves on the subject on which they make such sweeping assertions. Unfortunately, such groundless accusations are blared through the multiple mouths of the millionaires' trustified Press and with many still pass for reliable comment. They can be met only by patient, persistent, and widespread revelation of the facts. By this course, indeed, they are being met, and thus we find the mind of the community turning more and more to social ownership and control as a means of deliverance from the plagues of Capitalism. This is shown by the great growth of the Socialist Movement, by its large and steadily increasing hold on local government, despite the furious and unscrupulous campaigns of certain organs of the Capitalist Press, and by the vast increase in the number of the Parliamentary electorate who vote for the Labour Party, pledged as it is to the common ownership of the means of life.

[85] *The Times*, January 19, 1927.

CHAPTER IX

DEMOCRACY IN INDUSTRY

. . . . we contemplate the fully-developed State; the State that has incorporated in itself not only all social activities, but also the *whole population*; the State where every citizen is part of the administration, not only in a Pickwickian sense as now, but a *real, integral* part . . . where, therefore, all State-Help is really and truly Self-Help.—LAURENCE GRONLUND, *The Co-operative Commonwealth*, 1886, p. 125.

. . . . it must be understood quite clearly that the Socialist State is not merely to have a political form. It will not be embodied exclusively in a few politically controlled departments under the shadow of the House of Parliament. It will also consist of an industrial organization, which will have a very decisive influence on public opinion, and will also act as a check upon the political organization.—J. RAMSAY MACDONALD, *The Socialist Movement*, 1911, p. 190.

What the Socialist aims at is the substitution for this Dictatorship of the Capitalist, of government of the people by the people for the people, in all industries and services by which the people live. Only in this way can either the genuine participation of the whole body of the people in the administration of its own affairs, and the people's effective consciousness of consent to what is done in its name, ever be realized.—SIDNEY AND BEATRICE WEBB, *A Constitution for the Socialist Commonwealth of Great Britain*, 1920, p. xiii.

THE two immediately preceding chapters have explained some of the main grounds on which Socialists would transfer the means of life from the private ownership of the capitalist class to public ownership through the State or municipality, or such other organs of government and administration as may in the future be established, and have demonstrated that ownership and control by the State and municipality is, in many forms of enterprise and in all parts of the world, already in operation, and that it is almost invariably successful. We have seen that socialization of industry can secure for the community the profits now taken by the capitalist class, or can provide goods and services at a lower price and probably at the same time pay higher wages and give better conditions to the employees. We have noted also that the yielding of a cash profit is not always an essential condition of the carrying on of an enterprise as is the case with a capitalist company, and that in a given set of circumstances greater benefit

may accrue to the community by running an undertaking at a book-keeping loss. Further, we have seen that with socialized industry the aim of production would be the general well-being which would not suffer in a pursuit of profit as is often the case with capitalist enterprise, which has to be constantly watched and surrounded by legal restrictions to prevent its cheating the consumer, menacing the public health, or needlessly endangering the lives and limbs of the employees. In addition to these advantages there would also accrue to the public those benefits of large-scale organization and the abolition of wasteful competition which capitalist trusts and combines are now taking unto themselves at the consumers' expense. Summing up, therefore, we may say that the socialization of industry would result in a greater production of wealth, a better quality of wealth, and a more even distribution of wealth.

Would Socialization bring Freedom?

But is this sufficient? Would it mean the realization of that "industrial freedom by owning and controlling in association" to which reference is made in Chapter VII and which is of the essence of Socialism? The State or the municipality might own the plant, the raw material, and all the things needed for production, the worker might be better paid and be employed under better conditions, the standard of life of the whole community might be raised, but would the worker be more truly free? Would he have more control over his working life, would he still be in the subject position he is to-day, dependent for his livelihood on its being profitable for someone to employ him and cast aside when not wanted? Would his share of the wealth produced still ultimately be fixed by the competition of the unemployed and others worse off than himself, and thus tend always to fall to the subsistence level and never rise far above it? Would he be a free and equal partner in the work of his industry, entitled to contribute according to his capacity to the shaping of its methods and organization and improving its resources, or would his part be merely to do as he was told—as under Capitalism?

These are questions which must be answered before it can be with truth asserted that socialization of industry would necessarily

mean the liberation of Labour from its present inferior status. A higher standard of life is good. That socialization of industry would bring that about can be asserted with reasonable confidence; but freedom is not necessarily the accompaniment of comfortable living or even security. The negro slave who had a "good massa" was often quite happy and had little to worry about, but that was no defence of slavery, and the conversion of all bad masters into good masters would have been no true solution of the slavery problem.

Characteristics of the Wage System

The issues here raised may be reduced to the questions whether the worker under socialized industry would experience merely a change of masters—the public authority, national or local, for the capitalist company; whether he would still work under an external authority over and above himself; and whether he would have any right to live anything but a beggared existence apart from his being able to sell his labour in the open market. To supply the answers it is first necessary to remind ourselves of what are the characteristic features of the relation of the wage-earner to production under Capitalism.

In the earlier chapters of this volume we saw what these features were. It was explained how the wage-earner was shut out from all control over the means of life; that he could use his labour, his sole means of living, only if he could find a capitalist employer who could make a profit out of his so doing; that his status was that of a commodity, bought by the capitalist just as raw material or machinery is bought, for it is impossible to separate the man from the man's labour. We saw, further, that, except in so far as the anti-capitalist principle expressed by Trade Unionism and industrial regulation by law was applied, the worker had no control over the conditions of his work, but was in a purely subject relation to his employer. Most significant of all, we saw that the worker had no right of ownership in, or any sort of control over, the thing which he produced: it was the absolute property of the capitalist. If a situation were to arise in which the capitalist was unable to pay wages, the worker would none the less be unable, except at risk of criminal prosecution, to take

from the factory or works any article, or any part of any article, which he had produced.

These are the conditions of industrial slavery, and in essence they might be perpetuated even if all industry were under public ownership and control. Such a system as we have noted would give a higher standard of life, but it need not necessarily abolish the commodity status of labour, or give the worker any effective control over the conditions of his work or any right in the product of it. If the public control of industry were to be in the hands of officials responsible only to Parliament and municipal councils, and the share of control by the worker—using the term "worker" in its widest sense—were to consist only of casting his vote at elections, he would, practically speaking, work in a subject relation just as he does now.

Mere Transference of Ownership not enough

Of the two systems there can be no doubt that that of public ownership would be the better, for public bodies are subject to public pressure in a way which capitalist concerns are not, but, nevertheless, the position would not be essentially altered so far as the active, effective, and continuous control by the worker over the conditions of his work was concerned. Moreover, a general system of public ownership on the model of the Post Office and municipal trams would mean that the worker was engaged in the open market as now, selling his labour at a price ultimately fixed by poorer paid and unemployed labour,[1] and, apart from any provision made for continuity of employment, which might vary from industry to industry, from time to time, and from place to place, he might, as now, still have no right to work and live apart from being able to sell his labour to some public authority. He would thus still have no "stake" in any industry and therefore no stake in the country, which is precisely the position occupied by Labour under Capitalism. Although the labour commodity might be more highly regarded than now,

[1] In the arbitration on Post Office wages in 1927 the Government rested its case against any increase largely on the ground that other classes of workers held to be comparable to postal servants were paid less than postal servants, and on the further ground that there was a large number of applicants for all vacancies

it would still be a commodity, sold to and passing under the control of an authority external to and superior to itself—the only modification of this position being that by his vote at elections taking place at long intervals the worker could exercise some influence on industrial policy.

State Socialism never the Socialist Ideal. Testimony of Socialists

Now Socialism has never made such a form of industrial organization its goal. It has always sought the establishment of industrial democracy in a much truer and more effective sense than the mere transference of the ownership of the means of production from capitalists to the State and local authorities, similar to that which has already taken place in the case of many classes of undertakings. The limitations of such a transference in the eyes of Socialists is implied in the description "State Socialism" which they have usually applied to it; while in more recent years, when great attention has been given to this aspect of the subject, State Socialism has by some writers been roundly christened State Capitalism. This, I repeat, has never been the Socialist ideal.

More than forty years ago, in one of the earliest extended statements of Socialism in the English language, if we except the English translation of Marx's *Das Kapital*, and one much read in the early days of the Socialist Movement, Laurence Gronlund expounded ideas of the Socialist society of the future very different from the State Socialism referred to. Indeed, Gronlund's ideas bear a very marked likeness to those of the Guild Socialists of our own day, of which more will be said later in this chapter. He pointed out that the State as it then was—and, it may be added, though somewhat modified, still is—was a "political" State, a power by which one section of the community governed the rest, whereas "between the economic and social organization and the political organization of the future State there will not be a particle of distinction." The State as an instrument for "governing" men would give place to the State which was concerned with the administration of the things men needed. Gronlund pointed out that the details of such a society could not

in the nature of things be forecast, but in illustration of his principles he invited his readers to suppose

> every distinct branch of industry, of agriculture, and also teachers, physicians, etc., to form, each trade and profession by itself, a distinct body, a Trades-Union (we simply use that term because it is convenient), a guild, a corporation, managing its internal affairs itself, but subject to collective control.

In such organizations all appointments would be from below, and would be held subject to the continued approval of those who made the appointments. Defending this proposal Gronlund wrote, in language very similar to that which the Labour Movement of our time is increasingly using:—

> At present the Postmaster-General, or President, appoints the postmasters, and they again their subordinates and letter-carriers. Under Socialism it will certainly be the reverse. There the letter-carriers will elect their immediate superiors; these, we will say the postmasters; and these in their turn the Postmaster-General. Why should it not be so? Are not the letter-carriers just as competent to elect their superintendents as the Chief in Washington is to appoint the postmaster of Boston?

Socialism, as expounded by Gronlund, would have a central regulative system, but "the associated workers of every branch of industry or social activity," he held, would "manage their own affairs, subject to the supervisory control of the central regulative organ." The cotton workers, for example, would control the production of cotton goods; "but the *price* of the product is a matter that vitally concerns the whole people; wherefore, most naturally, the central regulative organ will claim the right to have the annual price lists laid before it for its approval." The functions of the central body Gronlund described as being akin to those of chief superintendent, chief statistician, and chief arbitrator.[2]

Again, in 1885, writing on behalf of the Council of the Socialist League, one of the earliest Socialist organizations in this country, the late E. Belfort Bax, urging the trade unions to work for the realization of Socialism, asked:—[3]

[2] *The Co-operative Commonwealth*, 1886, pp. 126, 165, 166, 172, 173.

[3] *Address to Trades Unions* issued by the Council of the Socialist League and written by E. Belfort Bax, 1885, 14 pp.

> What useful function can [trade] unionists fulfil? We would in reply urge upon all unionists to direct all their energies towards consolidating and federating with the distinct end of constituting themselves the nucleus of the Socialist Commonwealth—a commonwealth not alone national but international as well. We urge them to unite themselves with a view, at the earliest possible date, of laying hands on the means of production, distribution, and exchange, in this and every other civilized country, and organizing in the interests of all. To do this it is needful that political power should be in the hands of those who intend to employ it in the overthrow of the present system, understanding by political power, not merely the power of voting, but the possession of the whole administrative system—the complete control of all executive functions.

This advice to trade unions to organize so as to become the nucleus of the Socialist Commonwealth was clearly not that of men who visualized that Commonwealth as a bureaucracy administering industry from the centre.

The same may be said of the position taken by Thomas Binning, a member of the London Society of Compositors, when writing for the League on the same subject.[4] "I have a profound conviction," Binning declared, "that the trades unions are destined to play an important part in the Social Revolution. . . . As a Socialist myself it has always appeared to me that Socialism is but the expression of the ideals of Trades Unionism." As to the unions' policy:—

> Their action henceforth ought to be solely directed to preparing the way for the new social order and organizing and federating nationally and internationally, with the distinct intention of constituting themselves the nucleus of the Socialist Commonwealth. . . . The unions contain within themselves all the elements essential for the constitution of a rational society; they are, therefore, pointed out as the natural pioneers of the New Era.

Opposition to bureaucratic State Socialism and advocacy of some form of producers' control—not defined as to its nature but, nevertheless, clearly enunciated as a point of principle—is also to be found in the writings of the late H. M. Hyndman. In April 1884 Herbert Spencer, the famous individualist philosopher, made the programme of the Social Democratic Federa-

[4] *Organized Labour : The Duty of Trades Unions in Relation to Socialism*, 1886, 13 pp.

tion, of which Hyndman was the leading member, the basis of an attack in the *Contemporary Review* on the growth of State and municipal enterprise, which, he argued, would lead to the enslavement of the people. The Federation had urged the need for the nationalization of the land, and referred to "industrial armies" on the land. This, Hyndman wrote in reply, "gives our individual philosopher a shock." Spencer ironically professed to be inclined to believe that the reference to "industrial armies" was an oversight on the part of the Federation, but Hyndman retorted:—[5]

> Not at all. Socialism means organization in place of the existing anarchy; the only difference is that the educated and well-nourished workers of these industrial armies will elect their own leaders and organizers, and, equality of conditions being the rule throughout, there would be no domination, as certainly there would be no profit.

Twenty years later Hyndman described bureaucratic control as "one of the misfortunes of the growth of collectivism without a definite Socialist object." He added:—[6]

> Again, if we take the Government departments for whose management we are really all responsible, what do we find? The Post Office to-day is an organized sweating den. The Government gets the largest possible amount of work for the lowest possible wages. That is not my idea of State management. Exactly the same in Government dockyards and clothing establishments. People ask, "Do you want to extend and stereotype this under Socialism?" No, we do not; that is capitalist wage-slavery under Government control. We intend to do away with Government control by the dominant classes, and we want to replace it with an organized co-operative industry for the benefit of the whole community under the control of the whole people.

M. Emile Vandervelde, the Belgian Socialist leader, also has emphasized that Socialism means something quite different from the mere extension of public ownership. "What some people forget, or pretend to forget," he wrote, "is that Socialism seeks not merely collective appropriation, but an organization of labour essentially different from that which exists to-day"; and he adds:—[7]

5 *Socialism and Slavery*, 1884, 13 pp.
6 *Social-Democracy: The Bases of its Principles and the Causes of its Success*, 1904, 28 pp.
7 *Collectivism and Industrial Evolution*, p. 145.

> Now, in order that this Socialist organization may be established, we must assume, first of all, a whole series of transformations, not only in the moral and intellectual order, but in the politico-social order, and especially the conquest of the public powers by the proletariat, the differentiation of the Government State from the industrial State, the decentralization of social enterprises, characterized to-day by the most stifling centralization.

Illustrations might be multiplied,[8] but these perhaps will be sufficient to indicate that Socialism implies something more than a general extension of public enterprise as now carried on under Capitalism.

National Guilds: Their Place in Socialist Thought

But although Socialists have always kept before themselves the necessity for avoiding the replacement of capitalist industry by a bureaucratic public administration, it is nevertheless true that this aspect of the problem, as the Socialist Movement became more and more immersed in immediate political issues, fell into neglect, and was again brought to the front only in the years immediately preceding the war by the school of Socialists who took the name of "Guild Socialists." This school conceived the idea of National Guilds, and beat out what was, at least, a ground plan of the industrial democracy of the Socialist Commonwealth of the future.[9] This conception at present holds the field. It has percolated all through the ranks of the trade unions, which now very largely stand for what is usually described as "workers' control" of publicly owned industry, and it is the parent of those plans for joint control by the producers and the State which the Labour Party is putting forward with respect to mines and railways, the two large industries most ripe for socialization, and the socialization of which is an issue in current politics.

Let it be said, in passing, that Guild Socialism, properly regarded, is not a special brand of Socialism distinct from the generally accepted body of Socialist thought. Presumably the thinkers who conceived the idea of National Guilds felt some

[8] For example, see J. Ramsay MacDonald, *The Socialist Movement*, 1911, pp. 190–5.

[9] This was done in *The New Age* in 1911 and 1912, when it was edited by Mr. A. R. Orage.

necessity for christening themselves afresh, and so took the name of "Guild Socialists," but the economics on which their plans were based were the ordinary economics of Socialism and their criticism of Capitalism was that of Socialism. What they did—and the value of their work can hardly be over-estimated—was to develop theoretically a standpoint of the Socialist faith which, as already noted, amid the day-to-day work of politics was being neglected, and to attempt—in my view with a very great measure of success—to point out how this part of Socialist theory might be put into practice. I make this digression in order that the reader unfamiliar with the subject may get the Guild idea in its proper perspective in relation to Socialist thought as a whole, and not receive the false impression that he is now faced with two distinct schools of thought—the old Socialism and the new—and must accept one and reject the other.

The Guild Idea outlined

Of the Guild idea only the barest outline can here be given.[10] In brief, it means that those engaged in an industry shall be fully responsible for its organization and management, working as partners in a common service for the community. The producers in each industry would be enrolled for this purpose in one organization. This would embrace every class and grade of worker in the industry from the least skilled manual worker to the scientist, the expert engineer or the administrative genius. To these organizations the name "Guild" has been given. Whether this name would actually survive in the Socialist Commonwealth need not trouble us, though I cannot conceive of a better substitute. "It is centuries now since the Guilds died," writes Mr. S. G. Hobson, referring to the medieval guilds, "yet there is no word to this day which radiates such a rich tradition of liberty

[10] Both its theory and practice are elaborately discussed in *National Guilds: An Inquiry into the Wage-System and the Way Out*, edited by A. R. Orage, 1914; *Guild Socialism Restated*, G. D. H. Cole, 1920; *Self-Government in Industry*, G. D. H. Cole, 1919; *Guild Principles in War and Peace*, S. G. Hobson, 1918; *The Meaning of National Guilds*, Maurice B. Reckitt and C. E. Bechofer, 1918. To these writers I acknowledge my debt for what follows on the Guild system, but none of them must be assumed necessarily to be in agreement with me on any particular point of detail.

and craftsmanship. It is, indeed, notable and significant that no word has preserved its dignity, its sharp severance from the mean and sorbid, to the same degree as 'Guild.' When men and women meet together for some unselfish purpose, calling for craftsmanship or some effort involving work with the hands, they are likely to call themselves a Guild."[11] I believe this to be true.

The nuclei of the Guilds of the future are the trade unions of the present. The socializing of industry on the lines of National Guilds necessitates that the trade unions should be organized on the lines of only one for every industry, and that they should so broaden the basis of their membership that every producer in the industry, whether "by hand or brain" (the two, of course, cannot really be separated), would be eligible for membership. It necessitates also that the unions should, as a policy under Capitalism, consciously strive for a greater measure of control over the industries with which they are concerned, and so should progressively fit themselves for the full control of industry with which Socialism would invest the Guilds.

The Guilds would not own the means of production, but would be responsible for their use. Ownership would be vested in the community. It is the aim of Socialism so to inspire Trade Unionism, and all workers now outside Trade Unionism, with its ideals, and so to shape the unions' policy, that as the State or municipality supersedes the capitalist class in the ownership of industrial enterprises, the unions will be competent to take over control. To the statesmen the unions should be able to say: "When you are ready to collectivize we are ready to guildize."[12]

Working of the Guilds

The Guilds in being, there would fall to them the duty and the privilege of running their respective industries. The Guild would decide the methods; it would be the owner of what was produced; it would divide the proceeds of the sale of its products among its members according to principles and rates of pay which the members themselves would lay down. Out of its income

[11] *Guild Principles in War and Peace*, p. 63.
[12] *National Guilds*, p. 365.

the Guild would make provision for the maintenance of its members in sickness, unemployment, and old age. A willingness to serve when wanted would carry with it, as by every canon of justice it should, the right to maintenance when not wanted.

The Guilds would be organized in as democratic a manner as experience should prove to be possible. Obviously, it would be absurd to try to forecast the exact form which they would take. Forms of social organization never have been, and in the nature of things cannot be, foreseen in anything approaching detail, except as applying to the immediate future, and the Guilds are not of to-morrow, though we may reasonably hope that they will be of the day after to-morrow. We may, however, by a broad sketch, which, though not intended to be binding, yet bears some relation to realities, indicate the manner in which the Guilds probably would set about their task, and the principles on which their organization would be founded.

The Guild would be administered by national and local bodies elected by the members. The workers in the workshop would elect a shop committee, and the whole of the workers in the concern would elect a works committee. All the works in a district belonging to one Guild would be represented on a District Committee, again composed of elected representatives, possibly chosen in part by the Works Committee and in part by a vote of the separate crafts. Above the District Committee would be the National Guild Executive controlled by a national delegate meeting of representatives of all classes of workers in the Guild, and all the Guilds would meet in the Guild Congress to review their relations one with another and adjust them from time to time as circumstances required.

Highly centralized control would, so far as possible, be avoided. There would clearly have to be more of it in some industries than in others. In a railway system serving a whole country, for example, there cannot be much room for local initiative. "But," Mr. Cole writes, "apart from this, Guildsmen are keen advocates of the greatest possible extension of local initiative and autonomy for the small group, in which they see the best chance of keeping the whole organization keen, fresh, and adaptable, and of avoiding the tendency to rigidity and conservatism in the wrong things, so characteristic of large-scale organization,

and especially of trusts and combines under Capitalism to-day." The factory, mine, shipyard, or other centres of production would be "the natural and fundamental unit of industrial democracy. This involves not only that the factory must be free, as far as possible, to manage its own affairs, but also that the democratic unit of the factory must be made the basis of the larger democracy of the Guild. . . ."[13] The duties of the larger organizations of the Guild would consist chiefly of co-ordination of the production of the various units, making general regulations, supplying raw material, selling such products as were not disposed of locally, and representing the Guild in its relations with other Guilds and the community as a whole.

This democratic form of Government of industry would, of course, carry with it the democratic elections of its leaders. Workshop foremen—and foremen of corresponding centres of production in other industries—would be elected by those engaged in the workshop, who beyond all question are the best fitted to make the choice. Managers would be appointed by vote of the whole of the departments over which they were to have control. In the case of posts requiring special scientific or other training, the Guild would not, of course, throw these open to all and sundry. Proper qualifications would have to be shown, and certain tests passed, but, subject to the required standard of attainment being reached, these positions, too, would be filled by vote of the workers in the departments concerned, or, in the case of positions of a national importance and scope, probably by the national delegate meeting of the Guild.

Problem of Unpleasant Work

As to entry into the Guild, under Socialism, as under any system of society, those ready to enter industry would have varying tastes and capacities. There is no reason to assume that some Guilds would be overwhelmed with applications for membership while in others there was a shortage of workers. Any such tendency would be redressed by making the conditions in the less popular Guilds more attractive. It is, however, true that there is very little work which is without attractions for some

[13] *Guild Socialism Restated*, pp. 48, 49.

of us, providing it is done under decent conditions and adequately rewarded, so widely varying are the moulds in which humanity is cast. The more laborious work tends increasingly to be done by machinery, and the march of the machine with the object of reducing human toil would be even more rapid were its progress not, as now, governed by the consideration of whether human flesh and blood or iron and steel is the cheaper in terms of capitalist profits. As human labour, from whatever cause, becomes more expensive, as hours are shortened and conditions improved, so is machinery introduced to cope with the new situation; and we may be certain that as the power and status of labour improves, as human life comes to be more highly regarded, as the level of culture is raised all round, and as the motive to cheapen production to the uttermost at the expense of the human factor is eliminated, as the socialization of industry proceeds, science and the machine will relieve mankind of the more laborious and unpleasant work.[14]

This is the real answer to that threadbare poser as to who will do the heavy and dirty work under Socialism—that experience indicates that there will be little of it left to do. So far as it remains, there is the obvious and just solution of getting people to do the dirty work by offering special inducements in the shape of higher pay and shorter hours than would rule in pleasanter occupations requiring similar capacity. After all, sanitary science and engineering have already largely abolished particularly unpleasant

[14] This is not a mere speculation; it is the expression of one of the definitely established facts of social and economic science. In 1858 the factory inspectors noted that when the woollen manufacturers found themselves debarred from the labour of very young children they soon invented a piecing machine. "Forty years later, when a slight limitation was, for the first time, put upon the hours of labour of laundry women, the immediate result was the introduction of machinery in order, as the Chairman of the Eastbourne Sanitary Steam Laundry Company explained to his shareholders, 'to enable the women to do the work in less time.' In Victoria, when the Legal Minimum Wage was enacted for the boot and shoe operatives, we were expressly informed by the Factory Inspector in 1898 that 'a large increase in the amount of labour-saving machinery is taking place in anticipation of the coming into operation of the determination (of the minimum wage) of the Boot Board.'"—Mrs. Sidney Webb, *Socialism and National Minimum*, pp. 33–4. Again, the Select Committee on Home Work, 1908, reported that the "usual result" of laying down hours of work and minimum standards of sanitation, air-space, etc., by legislation was "not to kill the industry but to reform it. Low-priced labour is a great obstacle to improvement. It discourages invention and removes or prevents the growth of a great stimulus to progress and efficiency."—Quoted by Hutchins and Harrison, *op. cit.*, p. 266.

work, and when Public Enterprise has swept away the filthy dens in which Capitalism still leaves many people housed that sort of dirty work will be known no more.

When human labour cannot be obtained for any particular kind of work a way out has always been very quickly found. A striking illustration of this is the coming on to the market, with relative suddenness, of an immense number of labour-saving devices, and the making of all kinds of house-fittings with the same object in view as a consequence of the shortage of domestic labour in recent years. The same applies to house building. When the children of the poor would go from door to door and clean a flight of steps for a copper or two, the houses in the suburbs of London usually had anything up to a dozen steps leading to the front door. Now, when children are not available for the purpose, and domestic labour generally is not so easy to obtain and more costly than it was, a builder who erected a house with so many steps would be in grave danger of finding it a drug in the market—and so builders do not now do such things. That necessity is the mother of invention is doubtless inserted in the copy-books as a moral maxim, but it is much more an economic truth of first importance.

Guilds and the State

Returning now to the Guilds, with the skeleton sketch given of their rights, duties, and methods, let us pass to the relations of the Guilds to the community as a whole. With such powers as suggested in the hands of the producers in the various industries it would be clearly desirable to devise some method of ensuring that sectional interests did not override the general interest, and to this end a joint body, representing the Guilds on the one hand and the State on the other, would be set up. We have already noted that the means of production would not be owned by the Guilds, although they would be controlled by them. Ownership would be vested in the community, and this would be the community's main guarantee that it was not unfairly exploited by any Guild. It is suggested that the joint body would take the form of a Joint Committee of the Guild Congress and the State, and,

as a working forecast of its functions, I think the following holds good:—[15]

> It will be the duty of this Committee to decide what proportion of the nation's resources shall be devoted to the production of the various goods and services, a matter in which the consumer has clearly the right to be heard. The Committee . . . will further have to concern itself with the matter of foreign trade, the provision of fresh capital for the development of existing industries and the launching of new ones, the settlement of taxation and a part at any rate of the fixing of prices. . . . We must demand for the Guilds economic power, the fullest rights of self-government, and the initiative in every industrial function; but, when these have been secured, the workers can safely and naturally look upon the democratic State as a partner co-operating with them for the good of society, and not as an alien authority to be suspected and deposed.

As to the all-important question of prices, the instrument of taxation would be a means of checking any tendency on the part of a Guild to overcharge, supposing that in any instance or at any time the decisions jointly made with the State were not loyally observed. For taxation would be levied not on individuals but on the Guilds, and as justice in taxation implies that those with most shall pay most, a Guild getting unduly wealthy by keeping up prices would find that its excessive surplus was skimmed off by the State for communal purposes.

The main thing to be grasped at this point, however, is that, though the community would have the right to intervene in matters affecting the general welfare, the internal affairs of the Guild would be a matter for the Guild alone. "The 'how' is for the producer to determine, whereas the 'what' is essentially a matter for the consumer."[16] In that we have the kernel of the whole idea of the relation of the Guilds to the State.

Independent Producers: Artists and Craftsmen

At this point it may be as well to make clear that it is not imagined that under the Guild system we should find the whole population to the last man in Guild membership. There is,

[15] Reckitt and Bechofer, *The Meaning of National Guilds*, p. 366.
[16] *Ibid.*, p. 353.

for example, the case of artists and fine types of craftsmen. No one suggests that any such workers should be forced into a Guild against their will. They would, in all likelihood, be able to make an ample living working independently, for with the higher standard of living and of education which would be the rule in a Socialist society there would be a much greater demand for all beautiful things than there is to-day. In spite of the growth and general predominance of large-scale production under Capitalism, independent producers survive even in those industries which have fallen under the dominance of the machine. Here and there hand-loom weavers were at work even within the present century, and the village blacksmith can still be found making things which elsewhere are being produced in mass by machinery. The position of these independent producers is not, it is true, parallel to what would be the position of the independent artist or craftsman under Socialism, for the former survives in spite of the system with which he is surrounded, and will eventually go to the wall, while the latter would occupy his position from choice and find it happy and profitable. But the point to be grasped is that there have always been exceptions to the general rule in any form of society, and in all human certainty there always will be. A principle or plan proposed for the society of the future is in no sense invalidated because it seems not to bring within its scope and make provision beforehand for every variety of human activity and desire.

Future Organization of the State

I have so far, in dealing with the relationship between the Guilds and society as a whole, referred to the "State" as representing the citizens in the mass, but whether the State as we know it—that is, the existing political and civic machinery of government—will survive into the Socialist Commonwealth is extremely doubtful. Under the existing form of political democracy the people elect members to Parliament to represent them in relation to all those things with which Parliament deals. Time was when this may have been a perfectly rational arrangement, for the matters coming within the purview of Parliament were comparatively few. But during the past hundred years, and at a rapidly accelerating

pace, the life of the community has become immensely more complex, and, at the same time, the extent to which Parliament intervenes in the community's affairs has enormously increased. A great and ever-increasing variety of functions is placed on the shoulders of what Mr. Cole well calls the "omni-competent" State, working through Parliament, and it is seriously to be questioned whether such a position of affairs can continue or ought to continue.

"All true and democratic representation," Mr. Cole writes, "is *functional* representation," whereas the present so-called political democracy "is based essentially on the false idea of representative Government, which assumes that one man can represent another, not *ad hoc*, in relation to a particular purpose or group of purposes, but absolutely."[17] It is argued with great force that the functions carried out by what we now know as the State should be split up among separate national and local bodies which would respectively deal—giving three broad divisions—with industrial, cultural, and civic affairs in co-operation with the Guilds, which, it should be remembered, would extend to occupations of a non-industrial character. So far as industry was concerned the interest of the community as consumers might be in the hands of two types of organization: the Co-operative Movement transformed into the Distributive Guild and having the duty of watching and advising on those needs of the consumer which are of a personal nature—the things we buy ourselves individually for our own personal consumption, and local councils elected by all the inhabitants of their respective areas, and represented on a national council, which would have the care of the consumer's interests in relation to those things which he uses in common with others, such as railways, telephones, electricity and the postal service. Over all

[17] *Guild Socialism Restated*, pp. 33 and 122. On the same point Mr. Hobson writes: "Our whole national life seems to be struggling through the narrow orifice of Parliamentary institutions, so that nothing is done thoroughly. Function is subservient to clashing interests. A Parliament man anxious to frustrate Church legislation will talk out an industrial measure of first importance; a Bill to establish the manorial rights of the latest landed plutocratic, and having priority, may stand in the way of a Bill affecting the industrial conditions of a million men. . . . In short, the mould of our national, political, and economic life, shaped in earlier days when life was comparatively simple, must be broken or we shall degenerate."—*Guild Principles in War and Peace*, pp. 144–5.

there would be, as now, a central body—call it the State if you will, the Commune if you like—which would assist to co-ordinate the work of the Guilds and the consumers' organizations, dealing with broad questions of policy, and also having in its charge foreign relations and the general body of criminal and civic law. It would intervene as little as possible with the work of the Guilds and consumers' organizations.[18]

An objection to which this outline of the Guild plan may at once give rise is that it means "government by committees," which in the minds of some people is always associated with inefficiency. Such an attitude overlooks, that, as Mr. and Mrs. Webb have pointed out, it is by committees that modern Capitalism is administered. A Board of Directors is but a committee, and there were more than 66,000 such boards directing British industry in 1920, and to these must be added their various

[18] Attention must here be drawn to the proposals made by Mr. and Mrs. Sidney Webb, in *A Constitution for the Socialist Commonwealth of Great Britain*, for substituting democracy in industry for what they justly call the Dictatorship of the Capitalist. The elector, they say, "has never one will or purpose, but several different wills or purposes, which have no identity, and often very little connection with each other" (p. 102). He needs to be represented in his various capacities as producer, consumer, and citizen. It is proposed, therefore, that society should be reorganized into Democracies of Producers, Democracies of Consumers, and Democracies of Citizens. The citizen democracies would consist of two Parliaments—a Political Parliament and a Social Parliament—both elected on a basis of inhabitancy. The essential feature of the proposals is "the separation of current administration on the one hand from the decision of policy on the other" (p. 169). The Social Parliament would exercise "only a general supervision and control" (p. 120). "In the whole sphere of policy—such as the quality and quantity of the services to be rendered, and how, when, and where the commodity or service is to be made available for the whole community—the Social Parliament will be, through its Standing Committee, the supreme authority. But with the day-to-day administration in the widest sense, including appointments and promotions, purchases and sales, and the choosing between this or that method or technical device of the service, the principle should be that there should be no more Parliamentary interference, in the case of nationalized services . . . than in those like education and health, that are entrusted to the local authorities" (p. 169). To the Political Parliament would be entrusted principally foreign affairs, the relations with the Dominions, and the judicial code. A national minimum of subsistence, housing, leisure, and education would apply to all enterprises and be "the necessary basis of all their activities" (p. 323). Mr. and Mrs. Webb's suggestions do not involve the same degree of industrial autonomy for producers as is provided for in the Guild system; for instance, remuneration would be settled by joint bodies representing the management and the trade unions, which, therefore, must be distinct one from the other. But although the Guild idea approximates much more closely to the Socialist principle and ideal, it may well be that on the road to it we shall see in operation something similar to the scheme Mr. and Mrs. Webb have outlined. In any case, this work of theirs, so impressive on both its constructive and critical sides, should be studied by all interested in the subject.

sub-committees, such as contract committees and stores committees. "Every Trust in Great Britain or the United States is run by a whole series of committees."[19]

Abolition of the Wage System

We now return to the main thread of the argument. Assuming the realization of the Socialist Commonwealth through the Guild system, would the liberation of Labour be achieved? Would those conditions which we have seen to be characteristic of the relationship between Labour and Capital under Capitalism, and which account for the enslavement of the mass to a privileged class, be abolished? The answer is that they would.

In the first place, whereas now the product of labour belongs not to the workers but to the capitalist, in the Guild what labour produced would to the workers belong. Capital as a force with interests opposed to those of Labour, and battling with Labour over the division of wealth, would have disappeared. Indeed, as the word "capital" has always embraced in its meaning the idea of exploiting labour for the profit of the owner of capital, the word itself would under Socialism very likely become obsolete. We should speak, not of capital, but of "Means of Production," and the means of production would be the property of the community, and under the control of the various associations of workers by which they were operated.

In the second place, whereas labour is now bought by, and sold to, a class in a position of economic superiority to the worker, in the Guild nothing of the kind could take place. There would be no class in a position to enforce the sale of labour by reason of the fact that only by selling his labour to another could the worker obtain subsistence. The producers, organized in their Guilds, would have free access to the means by which wealth was produced, and they would dispose of their products under conditions which have been indicated. How the proceeds of such sales should be divided would be determined by the members of the Guilds themselves.

[19] Mr. and Mrs. Sidney Webb, *A Constitution for the Socialist Commonwealth of Great Britain*, p. 200.

Labour no longer a Commodity

Thus, in the third place, production by Guilds in a Socialist system would mean that labour had ceased to be a commodity, bearing the same relation to the productive process as lumps of coal, bars of iron, or bales of cotton, bought, like them, at the lowest price which can be enforced, and having no place in industry apart from its being profitable for someone to purchase it. The labour *market*—the term is, at the same time, the most accurate and the most significant of oppression in all the phraseology of economic science—would be known no more.

In the fourth place, conditions of work in the broadest and fullest sense would be decided by those who had the work to perform, and would not, as under Capitalism, be determined by persons in authority over the workers—except in so far as Trade Unionism and industrial legislation, painfully extracting concessions, has laid down minimum standards for health and safety; and these minimum standards, of course, do not touch the *organization* of the work which may be, and often is, a matter of much concern to the producers.

The establishment of these four conditions would achieve the aim which Socialists describe as "the abolition of the wage-system." Non-Socialists are apt to boggle at this phrase; under any system of society, they say, those who work must be paid wages. The term "wages," however, has always been understood to mean what is received for the absolute sale of labour to an employer at a price determined, more or less, by the supply and demand for labour in the labour *market*. This is the essence of the "wage system." The return made to labour under Socialism—call it pay, reward, remuneration, or what you will—would not be associated with such conditions, although the term "wages" might survive long after it has lost its present meaning.

Strength of Industrial Democracy

Now, at this point a critic might raise an objection somewhat in this fashion. He might say that he is convinced that Public Enterprise in industry, so far as we have had experience of it, has been a success, and that he is not greatly concerned even to

oppose a further extension of it in certain directions, providing it is run much as it is run now. But, he might argue, the idea of producers' control, self-government in industry through Guilds, is an entirely different thing, and it in no way follows that because the type of Public Enterprise we have so far known has been successful a system so different from it as the industrial democracy here outlined would be successful too. An entirely new principle and new elements in organization are introduced.

It is not denied that the two systems are entirely different, but the difference, while in no way lessening advantages possessed by Public Enterprise as we now know it, would bring with it still further advantages. The industrial democracy which Socialists seek to establish would still have the advantages which attach even to bureaucratic State Socialism, such as the abolition of the waste of competition, the elimination of the necessity of making a cash profit on every undertaking, large-scale organization in those industries in which it is the most efficient form, improved working conditions and healthier workers, resources for research and freedom from the necessity of paying over its profit to a non-producing investing class—and to these benefits would be added those which would accrue by substituting democratic for bureaucratic methods. Of these latter benefits the greatest by far would be that vast *increase of human capacity* which would spring from the living democracy of the Guild. Just as peoples suffering from political oppression are always backward peoples, whose latent capabilities begin to develop only when the oppression has been lifted and they have been made masters in their own house, so is a class economically subject to another class unable to develop the best that is in it. The best is given by free men, and the freedom of the Guild would bring out the best. Moreover, the Guild would, by its organization, consciously strive to secure the best that was in its members. It would provide the greatest possible scope for suggestions and ideas whether from individuals or groups, and would be able to develop a team spirit such as can never grow among men working for the profit of an owning class, and which would be nourished infinitely more readily in real industrial democracies than in existing State and municipal enterprises, in which the workers are debarred from any share of control.

Realistic Nature of Proposals

It is on such principles as are indicated in this chapter that Socialism would work out its basic doctrine of Common Ownership of the Means of Life. The method by which those principles might be applied has been very broadly suggested. The proposals are essentially realistic, for their operation means but the development of economic organization and the encouragement of economic tendencies already in our midst. They are firmly rooted in the present. But, more important still, it is to that goal—Industrial Democracy—that the mind and the spirit of Labour have turned. In ever-widening circles the belief spreads among the working masses that the goal can be reached. Believing thus, they will find a way, organizing as circumstances demand, facing every problem as it arises, but keeping clearly before them the aim of self-government in the work of their daily lives, which shall be spent in the spirit of service to the community, and not in enforced labour for the profit of a small but dominant minority.

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